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# Answers

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1 (a) (i) Mendelow matrix

The Mendelow matrix is a way of analysing the relative influences of a number of stakeholders in an organisation. In this case, the organisation is the new science park named the Science First development. Influence is conceived of as the result of an estimate of each stakeholder's power and interest. Power is the ability to bring pressure to bear over the objectives and policies of the project and interest is the capital which a stakeholder has invested in the organisation or project (or, an assessment of how much they care or are interested in the development). Higher influence is arrived at by a combination of higher power and higher influence.

**Stakeholder claims**

Science First Company is *seeking to remove any obstacles* for the construction of the science park. It believes strongly that the science park is in the strategic interests of the city of Philo and of Philo University. Kathy Wong's report suggested that the board may be unwilling or has become frustrated by local opposition to the development. Science First Company is in a high interest and high power situation and is probably therefore the most influential stakeholder. Its interest is derived from the capital investment in the site, and its power is based on its shareholders including the Philo local government authority, Philo University, both of which are prominent local organisations. The local government authority has control over the planning process and was able to issue a 'notice to quit' notice for residents in the flats affected by Topscience's objection to their presence near the Science First development.

The residents' association represents the interests of local residents affected by the development of the Science First development. The scenario does not say that the residents' association opposes the development of the site, but it feels that the *rights of longstanding residents near the site have not been adequately taken into account*. Although vocal and with a high degree of interest, it is likely that it has relatively low power. Its interest is based on the fact that the Science First development affects the lives of some residents, especially those whose homes are threatened. The evidence for its low power is based on the observation from the case that it seems unable to resist the proposed demolition of the flats, or any of the other infrastructure changes around the Science First development.

The cancellation of the proposed library was necessitated by the diversion of funds from library services to the Science First development. The loss of the planned library means the loss of a number of community services including a library, a café, and services for parents, art students and others. It will also result in the loss of ten jobs locally which would have been created had the library gone ahead. The potential library users are likely to feel aggrieved at the loss of the planned facility quite intensely and so their interest is likely to be high but, as with the residents' association, their power is relatively low. The low power of the potential library users is suggested by the fact that they were unable to resist the cancellation, and the loss of these important services will be keenly felt locally, especially if residents need to travel away from their local areas to use library services elsewhere in the city of Philo.

(ii) Increasing low power stakeholdings

Low power but high interest stakeholders are, when acting separately, unable to influence objectives because they are unable to move into the influential quadrant of the map because of the structural lack of power.

A common way to increase the aggregated influence of high interest but low power stakeholders is to *act together in a type of coalition*. This approach has often been tried when stakeholders oppose certain developments, seek to challenge policy changes and similar change initiatives. Stakeholders, often with little in common except their opposition to a certain initiative, *act in concert, co-ordinating their messages to achieve maximum pressure*, to influence local opinion on that which they both oppose. If they were to include other stakeholder also opposed to the science park, their potential influence would be maximised.

In this way, *many stakeholders act as one* and attempt to mobilise public opinion. In this case, highlighting the local costs of the Science First development on local media and in the streets around the site might serve to challenge the messages conveyed about the site by Philo University, by the Philo local government authority and Science First Company itself. By combining to make their arguments locally, stakeholders with undecided views, such as the local newspapers and some elected representatives, *might be influenced to recognise the wider issues* surrounding the development and the need for wider consultation. In this way, concessions might have been granted which were favourable to the potential library users and the residents.

- (b) With a development as large and expensive as the Science First development, there are always 'winners and losers' as Mr Forfeit explained. The public interest is a prominent theme in public sector organisations such as the Philo local government authority as well as to professional people including accountants. To act in the public interest is to recognise a *fiduciary duty to the benefit of society rather than just a duty to one particular party*. For Philo's local government authority, acting in the public interest means recognising that *it serves many communities* with each having rights and responsibilities. This is not to say that all communities carry equal weight in the local authority's deliberations and it has clearly decided that the Science First development is more important than the rights of local residents. This is likely because the Philo local government authority believes that the public interest is best served with the development of the science site over the concerns of some of the local residents.

The Philo local government authority can see a number of arguments in favour of the development. The attraction of a high profile science development near the city centre would be *a way of distinguishing Philo* from other cities and repositioning the city as a high-technology city which adds value through scientists, engineers and technologists. The development might also

continue the tradition of Philo as a strong industrial and innovation location. This reputation is also likely to create wealth through supply companies to the science development as well as on the science development itself.

For Philo University, the development of the science park will cement its reputation as a prestigious place to study science and it is likely to help *recruit some of the world's top scientists and science students to Philo*. Having a world-class university will help many sectors of the local economy as well as contributing to the tax revenue of Philo local government authority. Local business, housing developments, shops and restaurants will also benefit, thereby increasing their own employment and paying higher rates of tax.

Perhaps the main public benefit, though, are *the jobs which the science park will create*. In addition to local jobs in other businesses, the Science First development will create 500 new jobs, all of which were described by Mr Forfeit as 'highly skilled and highly paid'. As a city suffering from high unemployment, any new jobs are welcome and jobs of this quality would be particularly welcome. As well as reducing unemployment, the jobs would help individuals and families participate in society and plan financially for their futures.

There are also arguments which conflict with the above advantages, and these need to be weighed against the benefits. The case describes the outrage of the local residents' association with regard to the *loss of the local government authority flats* and clearly this was a personal tragedy for the residents of those flats who were required to remove themselves from their homes and community. Described by Ann Tang as a 'close-knit' community, the loss of their homes would have been very painful for the affected residents.

It was also the case that the local government authority budgets allocated to the science development meant that other services had to be reduced. The *loss of the proposed local library* was clearly an unfortunate example of this, with the loss of several community services as well as the library itself. The fact that local residents did not vote nor give their approval for the science park would have made the loss of the proposed library even more painful and this, in turn, may negatively affect the reputation of the Philo local government authority locally.

**(c) Accountants in society**

As a qualified accountant, Kathy Wong's analysis of the situation would have been seen as trustworthy by many people because of her professional reputation. Her role as a qualified accountant is seen by society as giving her membership of a responsible and respectable profession. This means that her judgement may be accepted without question by many people in the same way it would be for a dentist or a medical practitioner.

This esteem received from society requires, in return, that accountants must be seen to act in the public interest. This means that accountants need to act in accordance with an agreed set of professional values, always maintain the highest levels of integrity, and deal fairly with all parties they engage with. Accountants, along with other professionals in society, are expected to demonstrate unswerving support for these professional values and be beyond reproach, and act independently at all times.

**Criticisms**

In her report, the local government authority asked her to produce a 'balanced assessment of the contribution of the Science First development to the city and the region'. In producing her report, however, Kathy Wong *only meaningfully represented the interests of one constituency in her analysis*. If she only considered the Science First development in terms of 'the creation of jobs, marginal revenues and the reputation (of the university and the city)', then she is representing one interest (that of the company) and *ignoring or discounting the value of other interests*. This is the point which Ann Tang highlighted. Kathy Wong has been criticised for acting in a factional manner and ignoring the effects on those stakeholders not represented by accounting calculations.

The net benefits to the city *include an estimation of the advantages and disadvantages* calculation including the costs to local residents and the closure of other services in pursuit of the Science First development. Her duty to the public interest includes recognising the diversion of funds to the Science First development from other services including libraries, and the relocation of some residents. A 'balanced assessment' would have included the social costs as well as the economic and reputational benefits and she failed to include these.

**(d) (i) Philo local government authority and the Science First development**

The local government authority is aware of some discussion in the city over the building of the Science First development. It is of concern that the local government authority has been criticised for a lack of transparency and fairness, when, in reality, these are essential characteristics of an effective local authority. As a public sector organisation, funded by central and local taxation, the Philo local government authority operates in a transparent way in order to ensure that local constituents are consulted and informed on key local decisions. If it failed to be transparent and fair in its decisions, a public sector organisation would fail in its public duty and its legitimacy would be called into question. The social contract which a public sector organisation has with its constituencies relies on these characteristics and it would be open to justifiable criticism were it to fail in these ways.

Transparency is a *default position of openness and disclosure rather than concealment*. Democratic bodies such as the Philo local government authority are required to debate in public and so the local authority would strongly contest any allegation that it has been lacking in transparency. Because the Philo local government authority exists for the benefit of local citizens, and can only exist with their continuing support, it is necessary to inform citizens of key issues and changes to their service provision and the reasons behind those changes. The scenario explains that the majority of elected representatives are supportive of the Science First development and, accordingly, it means the development enjoys the support of the local government authority. In Philo, an elected representative may be asked to account for her or his views on the development, perhaps by a constituent or the local media and this helps in local transparency.

Fairness is also a central theme in public sector organisations. To be fair is to *recognise many interests and to weigh each one against others in an equitable and transparent way*. Because a local government authority owes a duty to so many stakeholders, it needs to be fair to all of them. Because they operate using taxpayers' money, public sector organisations need to be fair, and be seen to be fair, in carrying out local policy. It is not always the case that all citizens and causes are treated equally, however, as some interests need to be subordinated for the wider benefit of society, but the local government authority owes a duty to explain any ways in which it balances the interests of different stakeholders over which it has influence.

- (ii) The Philo local government authority recognises that its performance *measurement is more complex* than for a private sector 'for profit' business. With a business, relatively straightforward financial measures are usually good signifiers of success or failure, including, for example, return on equity or return on sales, efficiency measures and productivity measures. For a public sector organisation like the Philo local government authority, *financial measures are only one type of many other relevant objectives including the availability and quality of service delivery*.

Because public sector objectives *are often contested by a range of different stakeholders in society*, public sector outcomes are often expressed in terms of value for money or in the delivery of public services such as the provision of public housing, health services, refuse collection, provision of jobs or learning opportunities. In a representative democracy such as in Philo, these outcomes are contested by political parties, with some preferring more or less of some provisions than others. So whilst the residents' association was disturbed by the loss of the proposed library and the block of flats, for example, *it was felt by others that these losses were necessary* in order to ensure the development of the Science First development.

The 3 Es framework is a way in which public sector objectives can be considered, with the 3 Es referring to the efficiency of the local authority, its effectiveness and its economic performance.

For the Philo local government authority, it must provide an *efficient* and value-for-money service to local taxpayers. In many cases, its service delivery is prescribed by national government policy whilst other activities, including the support for, and investment in, the science development, are discretionary. We would be very unhappy to run a fiscal deficit (spending more than we receive in tax receipts and block grants) and so we have to observe tight financial limits in delivering the services which our citizens want us to deliver. Efficiency is about delivering outputs for a set level of income, with efficient organisations delivering more on a given level of input than less efficient ones.

The local government authority must also be *effective* in that it must deliver its required services to a high quality and meet the expectations of service users. The Philo local government authority sees its support for the science development as a key part of its effectiveness as it is unlikely that the development would have been established without its support. In many cases, however, as we have seen with the loss of the adjacent building and the proposed library, the total effectiveness of our service delivery is not evenly spread and sometimes cuts in some services are necessary to provide increases in others. This is always a difficult judgement and public sector bodies are usually very aware of these choices when measuring their performance.

The final E concerns the economic performance or '*economy*' of the local government authority. The Philo local government authority receives an income each year based on a settlement from central government and what it raises in local taxation. Within this budget, we must deliver a wide range of local services and employ the skilled people necessary to deliver those services. There is little scope to run a deficit under most public sector organisation terms of reference and in fact most are encouraged to operate at a slight surplus. This often requires painful choices to remain within budget and accordingly, the political choices are often between the 'good' and the 'very good' in terms of how money is spent and this may be little comfort to the residents and library users around the Science First site, but I hope, at least, that this provides some explanation for the local government authority's actions.

As the chief executive of the Philo local government authority, I very much hope I have been able to clarify some issues for local residents. Citizens can, of course, always contact their local elected representative to discuss these matters further.

- 2 (a) Company directors have a fiduciary duty to act in the best interests of the shareholders who have appointed them to their position. They act as agents of the shareholders [the principals], and as such are delegated the power and authority to make decisions which will ultimately increase shareholder value over the longer term. A director owes a duty to all shareholders not to place him/herself in a situation where personal self-interest conflicts with the interests of the company, and vicariously its shareholders. Conflict of interest is when one's personal interest is at variance with one's professional duty of care.

In the context of corporate governance, directors must avoid the temptation to be influenced by factors which might not be in the best interests of the company. This could include:

- obtaining some personal advantage by virtue of their position as director, possibly to the detriment of the company;
- avoiding the influence of external parties, such as from a cross-directorship, when this comes into direct conflict with the best interest of the company; and
- directors contracting with their own company, except where permitted by the articles of association and where the directors' interest is fully disclosed.

In the scenario it can be clearly observed that the motivation and actions of Arthur Jellicoe are underpinned by his impending retirement. He is using his position of power on the board of Scapa Holdings to influence the decision to revalue the inventory

and thereby inflate the reported earnings. This in turn should have the effect of increasing the company's share price and the value of the share options which Arthur holds, which he has been advised to exercise before his retirement.

Although the rise in share price would be advantageous to all shareholders, it is the motivation behind Arthur's actions which creates the conflict of interest. He appears to be willing to use his longstanding friendship with the auditor's engagement partner to put pressure on the audit team to accept the revaluation of inventory, even if its accounting basis maybe dubious. When Arthur has exercised his options, made the tax efficient capital gain by selling the shares, and then retired as CEO, he will have no further interest in any consequential damage his actions may have caused to Scapa Holdings. In particular, if a further readjustment is subsequently required which could reduce profits to a level which breaches the loan interest cover covenant, placing the company in financial distress.

Consequently, Arthur should declare his interest and leave any decision about revaluing inventory to the remainder of the board. He will avoid the associated conflict of interest, and be seen to be acting in the best interests of the company's shareholders.

- (b)** The directors of Scapa Holdings, collectively referred to as the board, are charged with managing the affairs of the company by its shareholders. Directors, individually and collectively, have a duty under corporate governance to provide entrepreneurial leadership and run the company to the betterment of the shareholders.

The veil of incorporation ensures that Scapa Holdings is a separate legal entity from both its directors and shareholders, thus protecting the personal assets of owners and investors from lawsuits. This separation also restricts how much direct influence the shareholders have over directors in discharging their responsibilities. This is particularly important for a listed company where the shareholders simply view the company as an investment vehicle, so they may sell their shares at any time to rebalance their portfolio if required.

Agency theory describes the relationship between the shareholders, known as the principal, and the directors, their agents, and it is derived from the concept of separation between ownership and control. At Scapa Holdings the shareholders employ the directors using a contract of service to act as their agents and to manage the company on their behalf. The agents are granted both expressed and implied authority to deal with third parties on behalf of their principal, and they are held accountable under corporate governance for their actions and outcomes.

Should a situation arise, as described in the scenario, where the interests of the principal and agents are not necessarily aligned, an agency problem arises. The CEO of Scapa Holdings appears to be willing to take risks on behalf of the shareholders, who may have a very different attitude to risk taking. He has adopted a very short-term view of business performance to serve his own needs rather than focusing on maximising shareholder value over the longer term. This situation compromises the agency relationship and it may require an intervention by the principal to take steps to exercise some control over their investments, resulting in agency costs.

Agency costs can include:

- the time and expense of reviewing published information, and then attending meetings to monitor and scrutinise the board's performance;
- paying for the services of independent experts and advisers;
- external auditor's fees; and
- transaction costs associated with managing their shareholding in Scapa Holdings.

These agency costs could be reduced when direct action is taken to resolve the alignment of interest problem, which would improve board accountability. The employment of sufficient independent non-executive directors to monitor and scrutinise the executive members of the board should have a positive influence on their behaviour and inspire confidence from shareholders. In particular, a remuneration committee could devise and propose reward packages for executive directors which motivate them to act in the best interest of the shareholders they represent.

The direct link between rewards and performance confers an obligation on directors to account for their actions and activities to shareholders. This should prove that they are discharging their duties in line with shareholders' expectations of risk and reward. Any clear breach of agent accountability could result in the ultimate sanction of removing the offending directors from office and replacing them.

- (c)** Probity means honesty and making decisions based on integrity. Probity is a fundamental corporate governance principle and is concerned with telling the truth and thereby not misleading shareholders or any other stakeholders. For an individual, it suggests that they should act ethically with integrity, by always conducting their business dealings in an honest and straight forward manner.

Arthur Jellicoe has not behaved ethically with respect to probity. His attempt to persuade other board members to increase the value of inventory was purely for personal benefit; yet he did not explain his reasoning to them. In pursuance of his personal agenda he has acted dishonestly, certainly not displaying the ethical characteristics expected from a CEO (or any director). His suggestion that this was only a 'minor policy change' was designed to give an unfair impression of the effect of the revaluation to shareholders and other users of financial information, so misleading them away from his prime motives.

The gravity of the situation was compounded by the CEO offering to place undue influence on a longstanding friendship with the engagement partner of Scapa Holdings' auditors thereby ensuring that the policy change was accepted as presenting a

true and fair view of the company's financial performance. Of course, this would mean that if the partner convinced his audit team to agree to the higher inventory valuation at the next audit, his friend would become culpable in this breach of probity.

Finally it is disclosed that Arthur Jellicoe trained as an accountant many years ago. Therefore he is bound by a code of ethics which requires him not to act with self-interest or pressurise others to act to his advantage. His actions both display unprofessional behaviour and a profound lack of integrity which could result, if proven, in disciplinary action and sanctions against him.

- 3 (a)** CPD is the systematic maintenance, improvement and broadening of knowledge and skills, and the development of personal qualities necessary for the execution of professional and technical duties throughout an individual's working life. Angus, being both a company director and a professional accountant, will benefit from undertaking CPD in a number of ways:
1. CPD is concerned with maintaining his knowledge and skills base so that he remains effective in his current role by focusing on necessary competencies. This in turn will ensure that he is able to discharge his duties and responsibilities as a company director and professional, and improve overall performance in his current role.
  2. By keeping his professional qualifications up-to-date, he will improve his competence in a wider context benefiting both his personal and professional roles. CPD can improve and broaden knowledge and skills to support future professional development, and so it will increase Angus's capacity to take on new and challenging roles as a director.
  3. By updating his knowledge and skills on existing and new areas of business practice, like tackling internet fraud, he will be able to contribute towards the development of the company. In effect, CPD can act as a catalyst for improving and enhancing business performance.
  4. By undertaking CPD, Angus demonstrates a commitment to his profession and his company. By using the networking opportunities from attending a conference, he could develop business links which will help the company in the future.

#### **Features of effective CPD**

Individual professionals should be responsible for organising and conducting their own CPD so that it meets their particular needs. This can be achieved by determining what form of training or other intervention delivers the necessary output. ACCA operates a professional development matrix to assist its members, like Angus, analyse their roles and responsibilities, and then prioritise learning needs. The matrix comprises four elements:

**Planning.** The process will commence with Angus analysing his current role and then identifying the competencies which are needed to deliver the required level of performance for that role. A development plan is then devised which involves prioritising elements of the role which need most attention, but also addressing any emerging areas. When Angus decided to undertake private study to help him prepare for a forthcoming assignment, rather than attending the conference, he clearly was planning his CPD around his emergent job needs.

**Action (inputs).** The actual CPD undertaken should satisfy the following requirements:

- Relevance of the actual learning activity to the role;
- Understanding how the learning outcomes will apply to the workplace;
- Providing evidence that the learning activity was undertaken, and in part independently verified.

If Angus had attended all three days of the conference, he would have received verification that a number of hours of CPD had been completed, whereas by studying on his own Angus can only self-certify his CPD.

**Results (outputs).** On completion Angus should compare the results of his learning activities against his development plan, and self-assess whether the CPD has met his pre-determined objectives. Clearly this is only possible some time afterwards, and in the case of Angus could be gauged against how successful his future performance proves to be, particularly if he is given an assignment dealing with tackling internet fraud.

**Reflection.** As part of the iterative CPD process Angus should examine the evolving requirements of his role, as these will become a key feature of future planning. This ensures that all CPD he undertakes in the future remains relevant to his role and the needs of the company and its clients.

- (b)** Laurence Kohlberg devised a theory which explained the rationale behind human moral reasoning, where he was less concerned about the actual decision taken but rather the cognitive process which arrived at each judgement. Kohlberg described the development of individual moral and ethical reasoning through three discrete levels: pre-conventional, conventional and post-conventional.

At the conventional level, individuals aim to conform to social norms, so when deciding on a course of action they will consider what is expected of them and act accordingly. The level can be further viewed in two ways:

- **Interpersonal accord and conformity.** Sometimes referred to as the 'good boy-good girl' orientation, this stage focuses on living up to social expectations and accepted roles in society. Due consideration is given to the expectations of peers with an emphasis on conformity when arriving at an appropriate decision.
- **Social accord and system maintenance.** As individuals progress towards this more advanced stage of moral development, focus shifts towards a sense of duty and responsibility by observing law and order, adhering to rules and respecting authority.

In the situation described in the scenario where Angus Fortune decides to absent himself from the conference for reasons of his own choosing, and despite this being contrary to the instructions of his employer, it places the conference organiser in a difficult position. However, by applying Kohlberg's conventional level thinking it will make the decision taken by the conference organiser easier to arrive at and justify.

When Angus was booked onto the conference, a legally binding contract was made between his company and the conference organisers to deliver the content of the conference to Angus for the price paid. When Angus signed into the conference but then immediately proceeded to leave, it became apparent that he was trying to mislead his employer that he actually attended the conference. So the dilemma facing the conference organiser was whether or not to report Angus's absence to his company.

If conventional thinking uses *interpersonal accord and conformity*, the conference organiser may take a precedent from the expectations of his colleagues, who are likely to consider it to be a core part of their role to report known absences. However, assuming *social accord and system maintenance* is adopted, the conference organiser may decide it to be his/her moral duty to report the irregularity to Angus's employer, not simply because of any contractual obligations but because they believe it to be the right and proper thing to do.

- (c) Angus Fortune, being a member of ACCA, is required to observe the highest standards of professional conduct and comply with the ACCA *Code of Ethics and Conduct*. This code contains, among other things, the key fundamental principles which should be used to govern acceptable behaviour. Consequently, when Angus chose to spend his time at private study rather than attending the conference as per Peter's instructions, these underpinning ethical principles could be used as criteria to evaluate the ethics of his decision.

**Professional behaviour.** As a qualified accountant Angus should avoid any action which may discredit the profession. The ACCA Rulebook requires that all members show due consideration towards everyone they come into contact with in a professional capacity. So it could be argued that by misleading the conference organisers Angus had acted discourteously, and unethically.

**Integrity.** Integrity implies honesty, truthfulness and fair dealing with all parties. By taking the decision not to attend the conference, Angus is clearly misleading his employer and acting dishonestly as it is contrary to explicit instructions. Therefore this represents a clear ethical breach of trust.

**Professional competence.** All professional accountants have an ongoing duty to maintain their professional knowledge and skills base at a level required to ensure that clients or employers receive a competent professional service. It could be reasonably argued that when Angus elected to undertake his own CPD through carefully considered private study, he demonstrated a commitment to update his knowledge in a way which would be most useful in his current role. His motives appeared honourable and in the best interests of his employer rather than purely serving his own interests.

**Objectivity.** Objectivity requires that an individual should not allow bias, conflicts of interest or the undue influence of others to compromise their professional or business judgement, and infers independence of action. Angus certainly did not act because of the influence of others as his decision was made from his own reasoning, and with the best of intentions.

- 4 (a) *Risk perception* is the belief held by an individual or collectively by a group like the WSK scientific team, whether rational or irrational, about the chance of a risk occurring and/or about the extent, magnitude, and timing of its effects.

Risk perception is subjective by its very nature, which means it is difficult to accurately quantify either the likelihood or scale of impact of any identified risk. Therefore the 'best guess' made by the team of scientist about the likelihood of a major earthquake in the vicinity of the factory was highly subjective and unverifiable. This presented the board of WSK with the difficult decision of whether or not to accept the expert findings of the scientific team, and then act to limit the potential damage and harm which would be caused by such an event.

The board would need to commit a high level of expenditure to mitigate any damaging consequences of an earthquake. However, the limited data available offers no empirical or verifiable evidence that an earthquake near the factory will occur in the foreseeable future. However, if an earthquake struck, the consequences could be devastating to WSK and the local population if there were a leak of toxic chemicals into the atmosphere or water system.

There are many uncontrollable natural variables which influence the likelihood and impact of an earthquake. Therefore the range of outcomes varies from a minor quake which would not even be noticed to a great earthquake for which no precautionary measures could avoid its damage to the factory, including the release of toxic chemicals into the environment. The board has to decide if they are happy to live with the unknown risk of a major earthquake or to commit significant resources to minimise the impact on the company and its natural environment. The risk perception of the scientific team does not help to clarify their dilemma.

- (b) Environmental audits are structured investigations which can quantify an organisation's environmental performance and position by a systematic and objective evaluation of how well the company, its management and equipment are performing with respect to the primary aim of aiding the natural environment. An environmental audit comprises three key stages:

1. Agreeing suitable metrics for the organisation, which detail what specifically should be monitored and the best way this is to be achieved. In the scenario of WSK, this is likely to be concerned with the measurement of any chemical leakages from its manufacturing processes and storage facilities.

2. The audit team then measures actual performance against the agreed metrics using a representative sample related to the level of risk and the confidence required in the results. A mixture of compliance and substantive testing will provide the necessary evidence. Clearly the audit will have to be very thorough at WSK and the sample large because of the dire consequences of a toxic leak.
3. The auditors then compile a report to the board on their findings, detailing the levels of compliance achieved together with any significant breaches they identified. They would use the evidence gathered to determine and recommend improvements to the internal control systems. At WSK, this could include tightening safety procedures for handling chemicals and strengthening their storage arrangements.

#### **Benefits of an environmental audit**

The benefits will vary depending on the objectives and scope of the environmental audit, but include:

**Improved decision making.** WSK will have a better appreciation on how to meet its legal obligations. The audit will enable the board to understand their specific environmental risks and ensure that appropriate measures are taken to manage these risks. For WSK, this is particularly important because of the nature of their business, as they produce and store toxic chemicals. The board can use the findings of the environmental audit to determine the likelihood of a chemical leak, particularly in the event of an earthquake the scale of which cannot be accurately determined.

**Resource consumption.** Understanding how the company interacts with its natural environment allows it to more efficiently use its resource, particularly non-renewables. This clearly demonstrates that the company is environmentally responsible, and for WSK this could offer a distinct competitive advantage over similar firms by demonstrating that they are aware of their impact upon the environment and taking action to mitigate any harm by having a robust environmental policy.

**Compliance.** An environmental audit will provide independent evidence that the organisation is meeting its specific statutory requirements. This focuses management attention on the inherent risk of non-compliance and ensures that internal control systems are fit for purpose and improved if recommended by the audit report. At WSK, a systematic investigation of the environmental risks associated with all of its chemical processes could help to avoid future breaches and potentially save the company significant money.

#### **Importance of good quality information**

The information obtained and used should be *relevant* for specific decision-making rather than producing too much information simply because their information systems can 'do it'. A good way for the board of WSK to ensure that they are not overloaded with erroneous information is to clearly specify to the internal auditors the clear objectives of the environmental audit, this way they will only receive reports on matters they are concerned with [like the probably earthquake].

Information needs to be *timely* if it is to be useful. Although the board of WSK has no evidence that an earthquake is imminent, the perceived risk from the expert scientific team suggests that they may need to take action sooner rather than later. Therefore the environmental audit and its findings should be reported without delay.

As far as possible, information should be *free from errors*, however, accurate information is usually a function of accurate data collection. In the situation described in the scenario it is unlikely that the data collected will be totally accurate, so the board of WSK need to guard against expecting 'perfect' information as it is more important for the environmental audit information to be up-to-date and based on known assumptions.

Information should come from *authoritative* sources to ensure its reliability. It is good practice to quote the source used – whether it be internal or external sources. If estimates or assumptions have been applied, these should be clearly stated and explained.

The board does not have time to trawl through masses of information, so it should be *clearly presented*, not too long and communicated using an appropriate medium. The environmental audit report should provide a summary of the main findings and resultant recommendations so that its key features can be understood by all board members; however, it might also need to be presented by the auditors so that any questions arising from the report can be answered.

(c) A company's *environmental footprint* assesses its impact on the natural environment in a variety of ways, including:

- its resource and energy consumption, with particular concern for unsustainable resources;
- the amount of waste produced and disposed of; and
- the harm or damage caused by emissions to the environment.

Ideally every organisation, commercial or otherwise, should work towards attaining a zero environmental footprint by conserving, restoring and replacing those natural resources used in its operations whilst at the same time taking necessary measures to eliminate pollution and emissions.

To assess the environmental footprint at WSK, it is necessary to consider the core activities of its factory's operations, which can be broadly categorised in the following four ways:

- Delivery of raw materials to the factory from its suppliers will involve their transportation, which by definition will cause fuel consumption and pollution. Care should be taken to order quantities so that the number of shipments required is minimised.
- Chemical production processes which will involve consumption of energy and possible chemical spillages, which can be minimised by following well-designed procedures.

- Storage of finished goods inventory, which must be undertaken with great care to minimise the risk of toxic chemical leakages.
- Shipment of finished goods to customers by rail and road will have an environmental cost associated with the transportation. Rail is generally considered to have a lower environmental footprint than road haulage because of the quantities which can be shipped out by one vehicle.

Once the elements of the environmental footprint have been assessed and evaluated, WSK can take action to reduce the overall impact on the environment, and introduce robust measures which would mitigate the environmental risks arising from the effects of an earthquake.

- 1**
- (a) (i)** 1 mark for explanation of each stakeholder’s claim to a maximum of 3 marks.  
2 marks for explanation of each stakeholder’s position on the Mendelow matrix to a maximum of 6 marks. (9 marks)
- (ii)** 2 marks for explanation of coalition arrangements.  
2 marks for application to case. (4 marks)
- (b)** 2 marks for explanation of public interest anywhere in the answer.  
2 marks for each relevant point of critical evaluation to a maximum of 8 marks. (10 marks)
- (c)** 2 marks for each relevant explanation of the role of accountants in society to a maximum of 4 marks.  
2 marks for each relevant criticism of Kathy Wong to a maximum of 4 marks. (8 marks)
- (d) (i)** 2 marks for the importance of transparency and fairness in public sector organisations.  
2 marks for explanation of transparency.  
2 marks for explanation of fairness. (6 marks)
- (ii)** Up to 4 marks for understanding of complexity and contestability of public sector objectives.  
2 marks for explanation of each of the 3 Es in the context of the case to a maximum of 6 marks. (9 marks)
- Professional marks (4 marks)
- 2**
- (a)** Up to 4 marks for a detailed explanation of conflict of interest in corporate governance [1 mark only for definition].  
Up to 2 marks for each conflict of interest point discussed in the scenario; maximum of 6 marks. (8 marks)
- (b)** 1 mark for explaining the agency concept.  
Up to 4 marks for describing the agency relationship at Scapa Holdings.  
Up to 2 marks for explaining agency costs.  
Up to 2 marks for each point which explains how accountability reduces agency costs at Scapa Holdings; maximum of 4 marks. (9 marks)
- (c)** 2 marks for explanation of probity in business relationships.  
Up to 2 marks for each criticism of Arthur Jellicoe’s behaviour with respect to probity; maximum of 6 marks. (8 marks)
- 3**
- (a)** Up to 2 marks for each benefit of CPD for Angus Fortune, up to a maximum of 6 marks.  
Up to 2 marks for each descriptive point for effective CPD, up to a maximum of 6 marks. (10 marks)
- (b)** Up to 4 marks for describing conventional level reasoning [2 marks per sub level].  
Up to 4 marks for a description of conventional responses. (8 marks)
- (c)** Up to 2 marks for each principle evaluated, or ½ mark if not applied to scenario. (7 marks)

- 4 (a)** Up to 3 marks for evaluating difficulties of risk perception. 1 mark for a definition only.  
Up to 2 marks for each problem with the subjective risk perception described, up to a maximum of 6 marks. (8 marks)
- (b)** Up to 2 marks for each stage explained, up to a maximum of 4 marks.  
1 mark for each benefit to WSK explained, up to a maximum of 4 marks.  
1 mark for each use of information by the WSK board, up to a maximum of 4 marks. (10 marks)
- (c)** Up to 3 marks for explaining environmental footprint.  
Up to 2 marks for each activity contributing to WSK's footprint to a maximum of 6 marks. (7 marks)