
Answers

1 (a) BRIEFING NOTE – CONFIDENTIAL

To: FH Supervisory Board
From: External Consultant
Subject: Unitary Boards and Governance at iFly

Given that FH is considering the possible acquisition of shares in iFly the CEO has asked that I provide the supervisory board with some further information on unitary boards.

There are also two possible governance options to consider if FH were successful in the iFly acquisition: iFly could continue with its current unitary board structure or FH could insist that iFly adopt a two-tier board approach, similar to the model currently used for FH. The Veeland Corporate Governance Code allows flexibility for companies to choose either approach, so both options will be evaluated below. A recommended option will also be proposed for your consideration.

Option 1: iFly maintain a unitary board structure post-acquisition

Arguments for:

- Minimum disruption – the iFly board could continue to operate in its current form, i.e. 8 directors, and there would be no change to governance.
- Code compliance – the existing unitary board is acceptable as per the requirements of the Veeland Corporate Governance Code.
- Favoured by Veeland institutional investors – existing investors in Veeland appear to prefer the unitary board structure, so this could continue to maintain and attract Veeland investors.
- Governance development – this would enable the FH board to see how such an approach to governance could work in practice, which may help to improve the governance approach in the FH parent company.

Arguments against:

- Different to iFly structure – this may create concern for existing FH board members, who are experienced in a two-tier board approach, in terms of how confident they may feel in the ongoing governance of iFly.
- Opposition from Gerland investors – current and potential shareholders in Gerland, and possibly other countries, may also have concerns regarding a unitary approach. This could result in the need for greater shareholder engagement, to reassure investors, or if they fail to be reassured, a potential share sale to exit FH.
- Opposition from stakeholders – the current two-tier structure in Gerland allows other stakeholders to be members of the supervisory board, which may include, although not restricted to, employees, trade union representatives, government officials, and funders. They may dislike the refusal for them to oversee the governance of iFly under a unitary approach.

Option 2: iFly adopt a two-tier board structure post acquisition

Arguments for:

- Governance consistency – this would allow the same approach to governance in all FH controlled companies.
- Board representation - a number of directors from the FH supervisory board could be appointed to the supervisory board of iFly and ensure that decisions were being made in a consistent manner across the newly formed group.
- Strategic alignment – a similar governance structure would ensure more consistency in agreement of the group strategy and the implementation of that strategy both within FH and iFly.
- Attract Gerland investment – by adopting this approach to governance, they may provide reassurance for potential Gerland investors and funders to invest directly in iFly to meet future business requirements.

Arguments against:

- Transition period – the process of moving from a unitary to two-tier approach to governance is not a quick process. This would need to be planned in order to cause minimum disruption to business operations.
- Director dissatisfaction – the current unitary board at iFly has steered the company successfully over many years, and FH may wish to maintain some or all of these individuals, given their knowledge and experience of iFly. However, they may not favour the new approach and therefore may resign from their positions, further impacting on the transition period. This may be a particular issue for the two founder directors at iFly.
- Governance regulations – the newly established Veeland Corporate Governance Code currently allows flexibility in approach, but the majority of companies and investors still appear to favour the unitary approach. In future revisions of the code the flexibility on approach may well be withdrawn, which could make a two-tier approach non-compliant at that point.

Recommendation

As illustrated above there are many compelling arguments for and against each structure for FH. In my opinion, I feel that if FH were successful in acquiring iFly, then no immediate decision needs to be made regarding the governance structure. The current unitary board at iFly are very experienced and the unitary board approach is the established, and accepted, method of governance in Veeland. Therefore, it is important that the board ensure an efficient and smooth acquisition process, with minimal disruption on the business operations and decision-making of iFly.

Therefore, iFly should continue to operate a unitary board structure.

I would, however, suggest that FH appoint two non-executive directors (NEDs) to the iFly board, to represent the interests of the new majority shareholder. These (NEDs) could be new appointments in Veeland or they could be appointed from the FH supervisory board. The latter option may provide greater assurance to the FH board in terms of agreeing to the unitary approach.

Marking scheme

Consideration of option 1 - unitary board for iFly – 1 mark for each relevant point – arguments for and against – to a maximum of 7 marks.

Consideration of option 2 – two-tier board for iFly – 1 mark for each relevant point – arguments for and against- to a maximum of 7 marks.

Recommendation – up to 3 marks for a clear recommendation with suitable reasons.

Maximum of 16 marks in total

Professional skills may be additionally rewarded as in the following rubric:

How well has the candidate demonstrated professional skills as follows:	Not at all	Not so well	Quite well	Very well
<i>Evaluation skills in assessing the two potential board structures that FH could select following the acquisition of iFly.</i>	<p><i>The candidate has demonstrated poor or no evaluation skills.</i></p> <p><i>The candidate has failed to assess the two potential board structures. The candidate has shown poor professional judgement in failing to appraise the appropriate information in a useful and objective way.</i></p>	<p><i>The candidate has demonstrated limited evaluation skills.</i></p> <p><i>The candidate has shown limited professional judgement in assessing the two potential board structures. However, the candidate has not adequately evaluated the information in an objective and useful way.</i></p>	<p><i>The candidate has demonstrated good evaluation skills.</i></p> <p><i>The candidate has shown good professional judgement in applying a suitable approach to answering the question. They have demonstrated a reasonable assessment of the two potential board structures.</i></p>	<p><i>The candidate has demonstrated excellent evaluation skills.</i></p> <p><i>The candidate has shown excellent professional judgement in evaluating the most relevant factors. The candidate has made excellent assertions regarding the two board approaches.</i></p>
	0	1	2-3	4

(b) EMAIL

CONFIDENTIAL

To: Karl Jannssen
From: External Consultant
Subject: Email from iFly director
Date: 15th June 2021

Hi Karl,

Thanks for sharing the iFly director email with me. I know that you are interested in assessing this issue from an ethical perspective and so I have used an ethical decision-making model - Tuckers 5 Questions - as a framework to consider the decision. This is a very practical model as it uses five relatively simple questions that require consideration and is therefore easy to apply. The five questions are asked in relation to a specific decision that has been made or is proposed to be made, and by answering the questions it allows you to assess the "ethicality" of the decision, to see whether it was the right decision or not. The 5 questions are:

- Is it profitable?
- Is it legal?
- Is it fair?
- Is it right?
- Is it sustainable?

Please find my assessment below.

The decision: to continue to fly the Express aircraft knowing that there is a possible safety fault.

Tuckers 5 question model

Is it profitable?

To continue flying the iFly Express is profitable as it allows iFly to continue its normal business operations by flying customers to their holiday destinations. If iFly stopped flying to allow for the fault to be investigated, then this would mean that holidays may need to be cancelled, and refunds given to customers. Alternatively, iFly may need to arrange alternative travel arrangements, which may then incur further costs. There may also be some reputational issues for iFly, if it were to stop flying, which may affect future bookings.

It is also believed that iFly have received a discounted deal from Flyline for the purchase of the iFly Express, and therefore by continuing to fly, as per Flyline's advice, iFly will most probably continue to receive discounted prices, which may well be removed if the decision to stop flying is made.

Is it Legal?

This is currently unclear, as we do not know the exact nature of the possible fault. From the email there has been two recent incidents, but we could assume that all other flights from the 10 Express aircraft have continued without any problems, so there may only be an issue with the particular aircraft involved in the two incidents.

However, if there is a fault that has been identified, which may well happen again in future, and the impact of such a fault is uncertain, then iFly has a legal obligation to ensure that their aircraft are safe to fly customers, and therefore should not risk such a

situation occurring.

Is it Fair?

There are various key stakeholders impacted by this decision:

- iFly – who have acquired aircraft to carry passengers on holiday
- Flyline – who have designed and built a new aircraft that should improve travel for both airlines and customers
- Customers – who have booked and paid for holidays with iFly
- iFly staff – who expect a safe working environment
- iFly shareholders – who expect iFly to operate appropriately in order to achieve returns

There are also regulators, competitor airlines (who may be considering acquiring the Express) and local communities who live under the flightpath of aircraft.

The decision may therefore be seen as fair to some of these shareholders – Flyline certainly – but could be very unfair to others – i.e. customers, staff, local communities.

Is it right?

This is a difficult question to assess and can sometimes be assessed in terms of context and what has happened previously. For example, should any fault in any aircraft always result in the grounding of the plane until a full investigation has been undertaken, or, is it common for airlines to identify small faults with aircraft, that they know will not cause any significant issue and will therefore allow the aircraft to continue with their flight plans. This latter situation may happen on occasion when parts are not available at a local airport and the aircraft therefore needs to be returned to its home airport for the fault to be rectified.

Is it sustainable?

Can iFly continue to fly while the fault is investigated? In theory this is sustainable as normal business operations can prevail, and as long as there are no further incidents, this action could continue indefinitely. However, if there is continued delay in solving the fault, then this may cause more concern to iFly, and therefore more risk. So, in theory the continuation of flights may only be sustainable for a short-term period.

Advice on what action may be required

I think that the email received from the iFly director is useful to know, and it does cast a shadow over the senior management team within iFly and how they may be managing the balance between their safety and economic responsibilities.

If you progress your interest in iFly, it would be appropriate to arrange to meeting with their CEO, where you can then introduce the fact that you have received such information regarding the iFly Express and you are seeking their response. Depending on what they say this may then allay or alert your concerns accordingly. You can then take further action at that point if you feel appropriate.

Similarly, once FH have started formal due diligence arrangements with iFly regarding a potential acquisition, this would then be a good opportunity for you to discuss the safety concerns directly with the management of Flyline, in order that FH are fully aware of the possible impact and likelihood of any risks surrounding the safety fault that has been identified by iFly.

Depending on the information received from both iFly and Flyline, it may be appropriate for you to share this information with the airline regulators, as FH has a professional and moral obligation to ensure the safety of all stakeholders in the air transport industry.

I trust the above information is useful to you following the email you received, but if you have any further questions then please do not hesitate to contact me.

Regards

External Consultant

Marking scheme

Up to 3 marks available for each question considered under Tucker's model — up to a maximum of 12 marks.

Up to 3 marks for advising Karl on possible actions following the assessment of the decision.

Maximum of 14 marks in total

Professional skills may be additionally rewarded as in the following rubric:

How well has the candidate demonstrated professional skills as follows:	Not at all	Not so well	Quite well	Very well
<i>Scepticism skills in challenging the iFly decision to continue flying the Express aircraft</i>	<p><i>The candidate has demonstrated poor or no scepticism skills.</i></p> <p><i>The candidate has failed to challenge the decision by iFly. The answer is descriptive and there is no evidence of questioning the decision in an appropriate way.</i></p>	<p><i>The candidate has demonstrated limited scepticism skills.</i></p> <p><i>The candidate has made a limited attempt at challenging the decision by iFly.</i></p>	<p><i>The candidate has demonstrated good scepticism skills.</i></p> <p><i>The candidate has made a reasonably good attempt at challenging the decision of iFly.</i></p>	<p><i>The candidate has demonstrated excellent scepticism skills.</i></p> <p><i>The candidate has made an excellent attempt at challenging the decision of iFly.</i></p>
	0	1	2	3

(c) SLIDE 1: QUALITATIVE CHARACTERISTICS OF FINANCIAL INFORMATION

- Fundamental
 - Relevance
 - Faithful representation
- Enhancing
 - Comparability
 - Verifiability
 - Timeliness
 - Understandability

Supporting notes:

Relevance concerns the decision-making needs of users. Information should help users to evaluate past, present or future events (known as predictive value) and to confirm or correct their past evaluations (known as confirmatory value). Relevance of information is also affected by materiality, as information is material if its omission or misstatement could influence the decisions of primary users taken on the basis of the financial statements.

Useful information must represent faithfully that which it purports to represent. A faithful representation of information must be neutral (i.e. free from bias), complete, and free from error.

Users need to be able to compare financial statements of an entity through time – to identify trends in financial position and performance; and to compare different entities – to evaluate relative financial position and performance.

Verifiability means that knowledgeable, independent observers could reach a consensus that a particular representation has the fundamental quality of faithfulness. Verification may be direct (e.g. through physical inspection) or indirect (e.g. using a model, formula or technique).

Information needs to be available in time for users to make decisions. Older information is generally less useful but may still be useful in identifying and assessing trends.

Users are assumed to have a reasonable knowledge of business and economic activities and accounting, and a willingness to study information with reasonable diligence (i.e. they are expected to have a level of financial expertise). Information about complex matters should not be excluded on the grounds that it may be too difficult for certain users to understand. Classifying, characterising and presenting information clearly and concisely contributes to understandability.

SLIDE 2: SOURCE OF FINANCIAL INFORMATION

- Financial statements
- Management accounts
- Comparative airline data
- Prior year comparisons
- Future forecasts

Supporting notes:

The financial statements of iFly will certainly be required in order to assess their audited financial performance for current and previous years. This will also allow for the calculation of various financial ratios and the associated trends in those ratios.

The latest internal management accounts would be useful to assess current operating performance across the business, which could provide information on product/location performance throughout the iFly travel business, and a comprehensive margin analysis. Of particular interest for FH would be iFly's performance data in relation to long-haul holidays, as this would be a potential new market for FH. The advantage of management accounts in comparison with financial statements, is that this should contain the most recent and current performance data for iFly.

It would be useful to compare iFly as an airline, rather than a travel company, as this is a key reason why FH are interested in acquiring the company. FH could compare performance of iFly with other similar sized airlines, including those competitor airlines that FH currently use to fly their customers from Gerland.

By reviewing historic performance FH can assess whether current performance is increasing, declining or remaining stable. iFly is an established company, so a historic analysis will help identify seasonal variations in their performance, which would be expected from a travel company, but it may highlight to FH their base performance levels when reviewed over several years.

Future forecasts would be valuable when assessing future expected business and capacity levels from both the airline and wider travel group. There may be opportunities for FH to use capacity within iFly in future, especially in terms of flights and satisfying demand for Gerlanders. Similarly, there may be an opportunity for FH to promote iFly to existing Gerland customers, especially in relation to long haul holidays.

Marking scheme

Slide 1 – up to 2 marks for relevant, well explained points - to a maximum of 5 marks.

Slide 2 – up to 2 marks for relevant well explained points – to a maximum of 8 marks

Maximum of 10 marks in total

Professional skills may be additionally rewarded as in the following rubric:

How well has the candidate demonstrated professional skills as follows:	Not at all	Not so well	Quite well	Very well
<p><i>Communication skills in presenting concisely and effectively the qualitative characteristics of financial information and the sources relevant for FH</i></p>	<p><i>The candidate has demonstrated poor or no communication skills.</i></p> <p><i>The candidate has failed to present a logical argument for the qualitative characteristics of financial information.</i></p> <p><i>The style, tone and presentation of the slides and notes would not be suitable for presentation to the CEO.</i></p>	<p><i>The candidate has demonstrated limited communication skills.</i></p> <p><i>The candidate has demonstrated some evidence of the characteristics and sources but some of it is not clear or insufficient.</i></p> <p><i>The style, tone and presentation of the slides and notes would not be suitable for presentation to the CEO.</i></p>	<p><i>The candidate has demonstrated good communication skills.</i></p> <p><i>The candidate has presented a range of clear characteristics and sources for FH. However, some key points were missing or not presented clearly.</i></p> <p><i>The candidate has presented the answer in a suitable presentation slide and note format.</i></p>	<p><i>The candidate has demonstrated excellent communication skills.</i></p> <p><i>The candidate has presented a clear and logical range of characteristics and sources. The candidate has presented the answer in a suitable presentation slide and note format.</i></p>
	0	1	2	3

2 (a) NOTE TO NAOMI PATON RE: BUDGETING APPROACH AT EZ

Limitation of a fixed budgeting approach

Lack of flexibility

A fixed budget is prepared at the start of a budget period and is based on an expected level of activity for the budgeted year. For EZ this would be the expected level of client engagements, and associated costs, during the period April to March each year. No adjustments are made to the budget, regardless of any changes in activity levels, hence it is fixed for the year. Budgeted activity can therefore be very different to actual activity in a given year, as EZ appear to have experienced in recent years.

Ignores changing external environment

As the budget does not change it means that it lacks flexibility for the business, as no changes are made in response to differences in activity levels. For EZ, if the number of client engagements significantly changed during the year - either more or less - then the budget would still be based on the original activity levels, and EZ would be reporting significant variances from budget throughout the year.

For many organisations the external environment may well change from when the original budget was set, and this approach to budgeting does not allow for such changes to be recognised, and, more often, the nature of these external changes means that they are most probably outside the control of the company and its budget holders.

Produces large variances between actual and budget

With a fixed budget it may produce large variances even early on in the financial year, and this may increase during the year as each month passes. So significant variances may well be reported throughout the majority of the financial year.

Given EZ's significant growth profile this means that variances have regularly been reported throughout each financial year.

Increased time taken to explain variances

When large variances are reported budget holders will need to take time to report and explain such variances. This may involve reporting to different management levels within an organisation and even to board level. Companies may even use some form of staged reporting, where levels are established for variances to be explained – i.e. if you are more than 20% over budget for the year then you need to present to senior management. This process can all take time, which is acceptable if budget performance is due to poor management, but not if it is due to an inappropriate budget approach.

Loses credibility with management

If management receive budget performance reports with consistently large variances, due to acceptable reasons, the value of these reports will become diminished and lose credibility, as they will no longer be useful to those affected budget holders. Management may then seek alternative reports to provide them with the right level of information, which may involve duplication of work and wasteful resources.

Demotivating for budget holders

For managers with budgets that are not aligned with current activity levels, or have not been updated for changes in the external environment, it can be very demotivating to receive negative variance reports, which you feel is through no fault of your own, and indeed the reports may hide exceptionally good performance within the constraints of an outdated budget. Some of the EZ budget holders may well have felt this way over recent years.

An alternative budgeting method for EZ

Marker's note - There are a number of potential approaches that may be relevant for EZ. Candidates should select one method only, but additional possible methods are included below.

The most likely alternative approaches could be a **flexed budget** or a **rolling budget**, which would more directly address the limitations of EZ's fixed budget.

A flexed budget would recalculate the budget using the original budget assumptions, but the actual activity levels, which would mean that the comparisons between actual and budget would be more valid. For example, if EZ assumed 1,000 client engagements, and the associated revenue and costs for each engagement in the original budget, but then actually achieved 2,000 engagements, then the original budget would be "flexed" to reflect the increased activity levels. Given EZ's growth profile, this would provide a more suitable way to assess performance against budget.

This approach would also support EZ's desire to have a more "dynamic" approach to budgeting, which can reflect changes in the external environment. For the 20/21 budget, EZ had assumed revenue of \$8 million, whereas actual revenue achieved was \$10m, a significant increase of 25%. EZ has reported issues of over expenditure compared to budget, but this may well be appropriate and justified in order to deliver the higher revenue figures.

Given EZ's ambitions for the future, whether that be a listing or potential sale, a flexed budget approach could ensure that the business continues to report realistic performance against budget throughout the year, which can then be easily communicated to potential investors or acquirers. In addition, it should help EZ to budget and plan more effectively, for both revenue and cost, which again should benefit EZ as it takes the next step towards being a larger organisation.

A rolling budget is an approach where the budget is continuously updated. There is still an annual budget period, but this period is kept constant by adding another month to the budgeted period as each month expires. For EZ this would mean that they would review the budget in March for the 12 month period from April to March the following year, and then at the end of April they would then review the new budget period from May to April and this approach would be reviewed each month. This means that any changes to EZs business or the external environment can be reflected in the budgeting process within a month, so budgets should represent a more accurate reflection of future likely performance. The issue, however, for EZ is that this will create more work to manage and update budgets on a monthly basis.

Marking scheme

Limitations of current fixed budgeting approach – up to 2 marks for each well explained and applied relevant point – to a maximum of 8 marks

An alternative budgeting approach – up to 2 marks for each well explained point covering an appropriate and well discussed alternative budgeting method – up to a maximum of 6 marks.

Maximum of 12 marks in total

Professional skills may be additionally rewarded as in the following rubric:

<i>How well has the candidate demonstrated professional skills as follows:</i>	<i>Not at all</i>	<i>Not so well</i>	<i>Quite well</i>	<i>Very well</i>
<i>Evaluation skills in assessing the limitations of the current budgeting approach and presenting the most appropriate alternative approach.</i>	<p><i>The candidate has demonstrated poor or no evaluation skills.</i></p> <p><i>The candidate has not adequately assessed the limitations of the current budgeting approach. The candidate has not sufficiently argued for an alternative budgeting approach.</i></p>	<p><i>The candidate has demonstrated limited evaluation skills.</i></p> <p><i>The candidate has provided a reasonable assessment of the limitations of the current budgeting approach. The candidate has provided limited arguments for an alternative budgeting approach.</i></p>	<p><i>The candidate has demonstrated good evaluation skills.</i></p> <p><i>The candidate has provided a good assessment of the limitations of the current budgeting approach. The candidate has clearly argued for an alternative budgeting approach.</i></p>	<p><i>The candidate has demonstrated excellent evaluation skills.</i></p> <p><i>The candidate has provided an excellent assessment of the current budgeting process. The candidate has made well justified assertions regarding an alternative budgeting approach.</i></p>
	<i>0</i>	<i>1</i>	<i>2</i>	<i>3</i>

(b) BRIEFING NOTE

To: Naomi Paton

From: Jeff Chang

Subject: Process automation – time recording and billing.

What is business process automation?

Business process automation is the use of technology to automate business processes to sequentially transition from one task to the next with minimal human intervention. It can be used across many functions within a business - i.e. sales, finance, human resources, operations etc. It attempts to remove any manual processing tasks that could ordinarily lead to delays and / or human errors.

How BPA may be used within EZ?

EZ would like to reduce the duration of the month end process from its current level of 14 working days to a target of 3 working days. In order to do this processes and tasks need to be completed more quickly, and yet remain accurate. One of the key processes at month end is the time recording process for consultants working on client engagements, and the associated billing of customers for expert services undertaken.

EZ should firstly remove the manual process of completing timesheets by consultants across the world. This should be an online process, where consultants complete timesheets, on a weekly basis, and input them on to an EZ central system. Currently directors approve all timesheets, but this is unsustainable given EZ's current and future growth plans. Timesheets could be approved by staff responsible for the particular client engagement, and the central system could be designed so that any time booked by consultants to an engagement would automatically be sent to the responsible manager.

However, BPA could allow EZ to remove this manual approval, by setting up each client engagement initially on the system to include hours budgeted, work to be done, consultants to be used etc. So that when consultants booked their time to a project, it would be approved automatically unless there were exceptions, i.e. a wrong person booking time to the project, hours booked more than expected, work undertaken that has not been sanctioned etc. – so a series of exceptions that would highlight any issues to the project manager. This would alleviate the need to approve every timesheet, and provide each project manager with an automated report on a timely basis of exceptions to be reviewed.

The timesheet system should also feed directly in to the customer records, in order that invoices can be automatically created based on time booked during a particular period. This would then avoid the current manual system of inputting timesheet information to the accounts system, which is very timely and also prone to human error.

By submitting weekly timesheets, not monthly, this would also allow EZ to potentially invoice clients on a more timely basis, which would be better for cash flow, and even if invoices are only issued at the end of the month, they should be available to be sent out on day one of the month end, and not potentially day 14, which again may aid cash flow in addition to reducing the month end timescales.

Marking scheme

What is process automation – up to 2 marks for a clear explanation.

How process automation may be used at EZ – up to 2 marks for each relevant, well-explained point – to a maximum of 8 marks.

Maximum of 10 marks in total

Professional skills may be additionally rewarded as in the following rubric:

How well has the candidate demonstrated professional skills as follows:	Not at all	Quite well	Very well
<i>Analysis skills in considering how the application of business process automation may improve EZ's time recording process.</i>	<i>The candidate has demonstrated poor or no analysis skills. The candidate has merely restated the information presented in the scenario, with no consideration of the application of business process automation.</i>	<i>The candidate has demonstrated limited analysis skills. Some of the answer demonstrated some analytical skills and there was some analysis and understanding of how business process automation could improve the process.</i>	<i>The candidate has demonstrated good analysis skills. Most of the answer was based on evidence identified from the scenario information and the candidate has made a very good attempt discuss how business process automation may help EZ.</i>
	0	1	2

(c) EMAIL

To: Naomi Paton

From: Jeff Chang

Subject: Reward schemes at EZ

Date: 15th June 2021

Hi Naomi,

You have asked me to identify the key principles of a good reward scheme and to then propose a scheme that could be introduced to motivate the finance team, and especially to incentivise the team to improve the month end process. I have outlined my ideas below for your consideration.

For the finance team at EZ, they should have clear team and individual objectives which are set at the start of the financial year, and are then monitored throughout the year. Your role, as FD, will be key to ensuring that these objectives are communicated clearly to the team, and then followed up during the year, to provide the motivation for the team to continue to strive to achieve their respective objectives and targets.

Rewards for staff could be monetary, i.e. salary, bonus, benefits, or non-monetary, i.e. responsibility, recognition or experiences.

Fitzgerald & Moon developed a building blocks model, which provides a structure for designing effective reward systems, and within this model they identified three key principles of a good reward scheme.

1. Clarity – the scheme should be clear to all participants on how the reward scheme works, including what benefits are potentially available for given levels of performance.
2. Motivational – a scheme should excite the participants so that they wish to achieve the rewards, so it should be aspirational but realistic to succeed in the scheme.
3. Controllability – participants should only be judged and rewarded based on things within their control.

For the EZ finance team, a reward scheme for the whole team could be introduced to incentivise the team to reduce the number of days it takes to complete the month end process.

By setting a target for the EZ finance team – 3 days - this is clear and will enable the team to focus on the best ways to reduce the time taken. To ensure that quality is not affected by the reduction in time, there may be an opportunity for some further associated targets, for example customer feedback on accuracy and timeliness of invoices or consultant feedback on timeliness of payments.

These measures alone could be motivational for the finance team, but to provide some further motivation, there should be a financial incentive for the team, where each team member receives a fixed bonus for achievement of personal targets, or non-financial, for example each member receives additional leave entitlement for that year. There could also be team based rewards, for example, a party or a day out, with all expenses paid by the company. All targets should be set at levels that the EZ finance team will feel realistic to achieve within the agreed timescales.

We will need to ensure that once we agree the objectives and targets, at individual and

team level, that we generate a system to easily obtain the relevant data on a monthly basis, so that we can then report progress throughout the year.

It may also be good to involve some members of the finance team in creating the reward scheme, as this may improve ownership and engagement of the tasks to be achieved, and therefore result in an increased probability of success.

I think I have addressed the issues that you requested but if you have any further questions then please let me know.

Regards

Jeff

Marking scheme

Principles of a reward scheme – up to 4 marks

Proposal for the finance reward scheme – up to 2 mark for appropriate points - up to a maximum of 6 marks for relevant discussion and proposal.

Maximum of 8 marks in total

Professional skills may be additionally rewarded as in the following rubric:

How well has the candidate demonstrated professional skills as follows:	Not at all	Quite well	Very well
<i>Commercial acumen skills in using appropriate judgement to propose a suitable reward scheme.</i>	<i>The candidate has demonstrated poor or no commercial acumen skills. The candidate has failed to demonstrate an understanding of reward schemes in the context of EZ.</i>	<i>The candidate has demonstrated limited commercial acumen skills. Some commercial awareness was demonstrated but the candidate has failed to demonstrate sufficiently an understanding of rewards schemes for EZ.</i>	<i>The candidate has demonstrated good commercial acumen skills. Most of the discussion demonstrated good commercial awareness of the influence and impact of reward schemes.</i>
	0	1	2

(d) EMAIL

To: Naomi Paton
From: Jeff Chang
Subject: Revenue recognition in Asia
Date: 15th June 2021

Hi Naomi,

I am writing to you in regard to your recent request to recognise revenue on a number of our client engagements in Asia.

As you know following our conversation I could not find any evidence that work had actually started on these particular projects, and I can confirm that, according to our systems, no time has actually been booked to these projects by our consultants. This indicates that no work has yet been carried out and therefore we are not in a position to recognise revenue against these projects.

I need to ensure that our accounts follow all applicable standards, and represent the true operations of our business for all potential users of these accounts. I fear that if I were to recognise revenue on these projects, then EZ's sales would be inflated for this current period. I appreciate that these are valid EZ projects, but until the work has commenced and we can evidence this through the recording of time by consultants, then we should not be recognising any revenue.

As you know, we are subject to a professional code of ethics, principles and conduct, and in this instance I feel that a number of these principles are being challenged.

Integrity ensures that we, as accountants, are honest and truthful in everything we do. In this situation, having reviewed the Asia projects and the fact that time has not been booked to date, for me to now recognise revenue without any evidence would not be acting with integrity.

Professional behaviour means acting in line with all relevant laws, regulations and accounting standards. IFRS15 Revenue from Contracts with Customers provides guidance on when revenue can be recognised, and specifically in relation to contract performance to date, and how this may be recognised. Therefore, as accountants we should follow this guidance and recognise revenue only when allowed.

I appreciate that EZ has revenue targets to achieve each quarter, but accountants should perform their role objectively, a further principle, without an undue influence or bias from others in the organisation.

I would therefore recommend that we do not recognise any revenue for these projects this quarter, as we have no evidence to support this and no detail on what level of revenue would indeed be appropriate. We can then review next month/quarter to see if any work has started on these projects.

If you feel that work has started but not yet been booked, please let me know and who would be the best person to speak to regarding the missing timesheets.

I hope you understand my concerns regarding this matter, and I am happy to discuss further if you wish.

Regards, Jeff

Marking scheme

Concerns – up to 2 marks for each relevant point applied, with particular reference to the fundamental principles – to a maximum of 8 marks.

Recommendation – up to 2 marks for a well-reasoned and appropriate action.

Maximum of 10 marks in total

Professional skills may be additionally rewarded as in the following rubric:

How well has the candidate demonstrated professional skills as follows:	Not at all	Not so well	Quite well	Very well
<i>Scepticism skills in challenging Naomi regarding her request to recognise revenue.</i>	<p><i>The candidate has demonstrated poor or no scepticism skills.</i></p> <p><i>The candidate has failed to challenge the request raised by Naomi. The answer is descriptive and there is no evidence of questioning Naomi in an appropriate way.</i></p>	<p><i>The candidate has demonstrated limited scepticism skills.</i></p> <p><i>The candidate has made a limited attempt at challenging the request by Naomi.</i></p>	<p><i>The candidate has demonstrated good scepticism skills.</i></p> <p><i>The candidate has made a reasonably good attempt at challenging the request by Naomi.</i></p>	<p><i>The candidate has demonstrated excellent scepticisms skills.</i></p> <p><i>The candidate has made an excellent attempt at challenging the request by Naomi.</i></p>
	0	1	2	3