Answers
There is a culture of carelessness in the NFA. The tone at the top is one of tolerance of the current practices and not focusing on the need for improvements. The committee should recognize the importance of internal control and control mechanisms and all functions and personnel should be subject to monitor and review. The importance and complexity of the role of a referee makes referees an obvious subject for frequent review and yet there is no recognition of the risks associated with football referees and refereeing.

The NFA should use the inherent expertise of a committee structure to improve decision making in key areas like the control of referees which the committee has been given responsibility for. The structure should communicate to stakeholders that the responsibilities delegated to the committees, like remuneration, are key and are taken seriously by the main board.

Recruitment

Recruitments should be subject to monitor and review. The importance and complexity of the role of a referee makes referees an obvious subject for frequent review and yet there is no recognition of the risks associated with football referees and refereeing.

The committee should be looking for comparisons when setting the pay structure for referees. They have not been sensitive to pay and employment conditions elsewhere in football and in the country generally, especially in determining annual salary increases. They could consider benchmarking against payments made to referees in other neighbouring countries and link the percentage increases paid to that of other comparable positions in listed companies and to increases in salaries given to footballers.

Control

The committee should recognize the importance of internal control and control mechanisms and all functions and personnel should be subject to monitor and review. The importance and complexity of the role of a referee makes referees an obvious subject for frequent review and yet there is no recognition of the risks associated with football referees and refereeing.

They have failed to understand the importance of effective internal controls to ensure correct decisions are made by referees. There is a lack of concern for the risks which arise because of their inaction to make a referee accountable for their decisions, and this is exacerbated by the fact that referees can select their own assistant referees, creating a risk of potential collusion. The fact that the names of the referees and the assistants presiding over each match is pre-released 28 days before a match takes place is another example of a weak internal control. The lack of use of technology is another internal control failing, and the available goal decision technology used in other countries is not adopted in Geeland. They are failing to understand the necessity of risk management and control systems to support effective control and correct outcomes of football games.

Governing the game of football effectively and maintaining integrity are two important values for the NFA and the committee is failing to deliver systems and controls which enable those values to be delivered by a referee. It is a key function of the committee to help to maintain a good reputation for the NFA and they are clearly failing in their duty with regard to referees.

There should be qualifications, ongoing assessment and training for all referees, both collectively and individually. The committee should have an oversight role in monitoring the local training and development schemes. There is no requirement for information flows from local associations to the committee. There should be accountability and feedback, with local associations required to report back to the committee on the action they have taken to update referees on changes to the laws and regulations of the game. The committee should act as a counter check confirming that all referees have received the required level of updates and knowledge to ensure understanding, and consequently have the ability to implement the changes when refereeing football games.

(b) Conditions

There is a culture of carelessness in the NFA. The tone at the top is one of tolerance of the current practices and not focusing on the core aim of governing the game and maintaining integrity. The NFA is an organisation with weak regulatory controls and
there appears to be a taken-for-granted approach to the refereeing decisions. It is evident from the scenario that the requisite regulation is not in place for such important matters as ensuring the right outcome for a football game.

With the difference in salaries between referees and the players they officiate, there is a motivation for referees to act dishonestly as they feel undervalued compared to the football players and equivalent responsible officers in listed companies. This creates resentment and provides a considerable financial incentive for fixing the outcome of the game. They strive to attain the same lifestyle as a successful footballer and many appear to have obtained the desired lifestyle by some means or other.

Once the lifestyle has been attained, there will be a motivation and a need to continue to fund the lifestyle. Referees can use their discretionary powers to deliver personal enrichment at the expense of the integrity of the game.

Because referees can use this large degree of discretion and autonomy and the fact that their decisions are not challenged presents them with an opportunity for corruption. The referees are not made accountable for their poor decisions and are seen to go unpunished. Referee power is wielded without any effective oversight. There is an opportunity for the NFA to reduce the power of the referee by introducing technology in order to validate controversial decisions made by a referee. The use of already available technology used in other countries is being resisted, leaving the referee with an open opportunity for corruption.

The potential pay-off for engaging in match fixing outweighs any possible disadvantages or penalties, so increasing the readiness of referees to take the risk. The lack of accountability enables gains to be made at least cost to themselves.

The NFA believes referee autonomy for appointing officials increases their motivation to achieve a higher level of performance during the game. The autonomy allowed creates the opportunity for collusion. Referees can appoint allies who may also seek personal enrichment and may be willing to turn a blind eye to any incorrect decisions made by the referee, thus making it easier to enforce unjust or incorrect decisions collectively as a team, rather than be accountable as an individual.

Names of officials are released 28 days in advance of the game. The early advance notification allows sufficient time for corrupt third parties to influence and even bribe referees, meaning the outcome of the game is effectively agreed before the match starts.

(c) General purposes of an internal control system

The first general purpose of internal control is to achieve the orderly conduct of business by facilitating effective and efficient operation of an organisation’s activities. In doing this, it must be able to respond appropriately to relevant risks and to configure activities to achieve the organisation’s strategic objectives. The NFA needs to respond to the risk of match fixing which is discrediting the game and the wider reputation of the NFA.

Internal controls should ensure the prevention of fraud and error. The referee is able to circumvent the limited controls in place. Football supporters will lose trust in the ‘honesty’ of the game and may decide to stop watching. It is clear that controls to prevent corruption are weak and need to be addressed.

Internal controls are essential in ensuring the robustness, quality and timeliness of both internal and external reporting. The provision of this information is important in managing internal systems at the NFA which would include feedback from local associations. External reporting will need to reassure supporters that action to improve controls has been taken.

Internal control is necessary to ensure compliance with any external laws, standards or regulations which apply. As regulator of the game of football, the NFA is expected to adopt governance arrangements which are in line with best practice for listed companies. It is clear from the actions of the referee sub committee that governance controls need to be addressed.

Control environment and control measures for refereeing at the NFA

The NFA should start with rebuilding a culture with strong ethical practices in order to restore the reputation of the game for supporters and television broadcasters. Senior members’ attitudes will influence those lower down the NFA ladder, including the referees. In representing the NFA, the ‘tone at the top’ should be one of a zero-tolerance of bribery and corruption so that all employees adopt this perception and are less susceptible to unethical practices.

New policies and codes of ethics should be developed and reinforced on a regular basis helping to keep them deeply ingrained in employees’ minds. They should become an integral part of the NFA’s culture, which will minimise the possibility of an ethical lapse.

Ex footballers have responsibility for the referee sub committee and they appear to be lacking the skills required. Education and training should be undertaken which would help to increase the efficiency and effectiveness of the role of the committee.

The organisational structure at the NFA appears to be decentralised and the quality of the personnel at the local level appears to be inadequate. Increased and regular training and education should be given to referees and those who administer the game at the local levels. Consideration should be given to a more centralised approach so that responsibility for training and the disciplinary process is the responsibility of the referee sub committee.

The foundation of improvements will be in the NFA’s ability to communicate its ethical agenda openly and transparently to its internal and external stakeholders. Referees and other employees should feel confident in their ability to prevent corruption and should know that senior management will support them if they oppose corrupt practices. Procedures for reporting the suspicion of corruption should be established and very clearly explained to staff. This will help to communicate to employees that the NFA takes anti-corruption procedures seriously.

It is important to respond appropriately to risks and perform risk assessments so that the NFA understands the factors which need to be taken into consideration. With referees, this might include the amount of control they have in decision making and
the lack of penalties and punishments to discourage the poor behaviour. The use of technology should be embedded so that a referee does not have the final say in some decisions. Technology would decide on whether a goal should be allowed and perhaps the use of television replays to check other refereeing decisions, including sending off the wrong players, would help prevent other blatant errors.

Appointments of assistant referees to a game should be made by the NFA to try to reduce the opportunity for collusion. Officials will need advance notice of the games they are required to officiate, however, there is no requirement for an announcement of this to the general public. This should reduce the opportunity of external parties approaching the officials and persuading them to accept a facilitation payment.

(d) (i) Briefing notes:

The importance of independence in refereeing decisions to football supporters

Football supporters are important stakeholders in the game of football. It is important that decisions and actions of referees are based on objective criteria in order to serve their interest in obtaining the fair result.

Potential corruption of referees, and the conditions which permit this, are not in the wider interest of the game or its reputation. The supporters want consistency in decision making and decisions to be fair so that the outcome of matches is not determined by accidental or deliberate errors.

There is a greater need for impartiality to avoid the referee being unduly influenced by a vested interest. This would provide confidence to the supporters that the referee will not be affected by the influence of others and compromise their professional judgement.

Assurances should be given that the referee will act in the best interest of the game and not in their own interest. Using technology like a goal decision system would ensure that no one team is given favourable treatment and would increase the likelihood that a correct decision would be made, or that an incorrect decision can at least be reviewed and corrected at the time, using appropriate supporting technology.

(ii) The damaging effect which any suspicion of bribery and corruption of match officials can have on the NFA and the wider reputation of the game of football

The risk of corruption puts the very fabric of the game at risk and undermines the integrity of the sport. Suddenly everything will be questioned. Trust is an important part of all professional occupations and referees as professionals in football should apply the same principles. Football supporters and television broadcasters who put their money into the game might see themselves as the victims and choose to remove their support from the game if a professional approach is not adopted.

Given the NFA's public profile, there will be impacts on the NFA's reputation. Regulators might intervene which could lead to fines and penalties and affect the overall financial position of the NFA.

Corruption can significantly impact employee morale. The behaviour at the NFA is sending the message that corrupt business practices like bribery are not serious concerns and that everything can be solved with incentives rather than through hard work and building relationships.

The authority and reputation of NFA suffers when the outcome of games is unfairly influenced and referees do not officiate with integrity. More resources might be required to effectvatively regulate the game of football in Geeland and maintain the current level of operations. Public relations efforts to reassure stakeholders that integrity is still a core aim for the NFA would mean re-routing important resources from other operations and lead to an inefficient use of NFA funds and personnel.

Senior managers will need to spend valuable time and resources to monitor the fallout and reassure stakeholders that the NFA is still capable of governing the sport. When the news about corrupt officials breaks, stakeholders lose respect and trust, requiring reassurance that the NFA is still viable and that the game of football is worth watching and paying for.

(iii) Benefits and contents of a professional code of ethics which could be used by referees at the NFA

A professional code provides a foundation on which referees should base all decisions. Referees should fully understand the expectations of the NFA and the ethical guidelines on which to make decisions. Behaviour in any given situation should be clear and similar disputes can then be resolved on a consistent basis.

Such a code provides transparency and could enhance reputation and develop a new positive brand for the NFA. The code will communicate the professional values of referees to the outside world and key stakeholders, who will then understand the ethical position and know how they should behave in any given situation.

A professional code provides guidelines to help deter unethical practices by placing limits on behaviour and prescribing behaviour in given situations. The code will state the boundaries across which it is ethically inappropriate to pass.

A professional code provides a framework for conflict resolution in the application of fundamental principles. The code of ethics provides guidance on how to resolve the conflict and tries to encourage ethical and professional behaviour in the NFA.
Content of a professional code

The code should include an introduction which provides the background to the code, stating who at the NFA it affects, how the code is enforced and outlines of disciplinary procedure.

The code should define the fundamental principles and values of the NFA. This should include the key principles which must be followed by all referees. Examples might include professional competence, integrity and objectivity for the referees.

Including a conceptual framework would help to communicate how the principles should be applied. It should be recognised that the principles cannot cover all situations and so the ‘spirit’ of the principles must be complied with.

There is a need for a practical and detailed application of the code. This would show examples of how the principles are applied in specific situations, such as how the code might be applied when referees are approached about potential match fixing.

2 (a) The role of the CEO

The CEO of TR Co is responsible for both the development and execution of the company's long-term strategy with the prime objective of creating shareholder value. This leadership role entails being ultimately responsible for all day-to-day management decisions and for implementing the company’s long and short-term plans. The CEO should act as a direct liaison between the board and senior management team, and also communicate to the board on behalf of management. The CEO should inculcate a culture which establishes those shared attitudes, goals and behaviours which characterise the values promoted by the company. The most critical aspect of corporate culture is shared values, so the CEO should ensure that these are applied consistently from top to bottom and across all departments in TR Co.

Inappropriate actions

In the current situation at TR Co the behaviour and motives of the CEO are highly questionable. By pressuring the CFO to apply accounting treatments which might artificially inflate the actual profit figure, and indirectly causing the financial controller to be uncooperative with the auditors on this matter, the CEO is not exhibiting the core values expected of the most senior executive director on the board.

It appears that the primary motivation behind the CEO's actions is self-interest. By applying the suggested accounting treatments, it is likely to generate a higher share price at the time the CEO is planning to exercise his share options. This is clearly an attempt by the CEO to manipulate the reported profit figure to engineer an unrealistic capital gain, and therefore is an unacceptable abuse of his power.

Although not stated, it could also be inferred that the CEO is using his friendship with the senior partner at Shaw & Bennett to exert pressure on the auditors to accept the accounting treatments without question. The auditors are acting for the shareholders of TR Co, so the behaviour of the CEO is a breach of his fiduciary duty as a director of the company.

Correct behaviour

The CEO should require the company’s accounts department to draw up financial statements which accurately reflect corporate performance through the correct application of accounting standards. This is because any overstatement of profit would not be in TR Co shareholders’ interests and any subsequent downward adjustment is likely to detrimentally impact on the share price. Any capital gain received when share options are issued should be an accurate reflection of the additional value which has been gained since the options were granted, and so this remuneration tool acts as a motivator to drive long-term business performance through the alignment of shareholder and option holder interests.

The CEO should encourage all staff to be open and engaging in their relationship with the auditors, and not to obstruct them in their work. This type of cooperative behaviour would be in line with the culture which TR Co would want to exhibit, promoting and conducting its affairs with the highest standards of integrity, probity and corporate governance. All external parties would want TR Co to be a transparent company which is being managed in the best interest of its shareholders.

The CEO should never allow any personal friendships to affect his responsibilities as a director of the TR Co. Therefore, in this instance he should refrain from discussing any aspect of the audit with the senior partner at Shaw & Bennett, instead allowing the audit committee to effectively discharge one of their primary duties.

(b) The current situation at TR Co presents several threats to the independence of various stakeholders involved in the audit.

The Shaw & Bennett audit team

The auditors are engaged to act on behalf of the shareholders of TR Co to independently validate and verify the accuracy of the company's reported financial performance. However, the pressure from the managing partner, who is friendly with the CEO to not question the policies and sign off the accounts, appears in part to be based on impending renewal of the audit contract. Although not explicitly stated, it could be implied that any future contract awarded to Shaw & Bennett is contingent on the outcome of the current audit. Therefore, if the audit partner decides to pursue her doubts further and delay completion of the audit, this could jeopardise an existing revenue stream for the audit firm. This dilemma clearly presents a threat to her independence and professional judgement.
The financial controller

The financial controller, being a qualified accountant, is obliged to comply with a professional code of ethics. This will govern the financial controller’s professional behaviour in a number of areas including acting at all times with integrity, which is currently being challenged by being uncooperative with the auditors. The financial controller should also apply professional competence and due care always, so knowingly capitalising normal expenditure and failing to make sufficient provisions would be a further ethical breach. It appears that the financial controller is being intimidated by the CFO to act in this inappropriate way, which compromises objectivity and independence and is totally unacceptable.

The CFO

The CFO, who is also probably a qualified accountant, is being pressurised by the CEO to ensure that high profits are declared over the next two years. Although he does not appear to have anything personally to gain except to keep the CEO, his line manager, happy, the CFO is still using his position of authority to deliver the desired results. This behaviour is of particular concern because the CFO is a director of TR Co and has a fiduciary duty to act in good faith on behalf of shareholders, yet his actions are a clear breach of the trust placed in him.

(c) Suitable safeguards which could be introduced to deter unacceptable behaviour and prevent any conflicts of interest include:

Job descriptions

By clearly defining the roles of the CEO and the chairman of TR Co it will avoid any risks arising from conflict of interest. By concentrating on representing the interests of the shareholders, the chairman is promoting the highest standards of corporate governance in the company. The chairman may also be responsible for signing off the financial statements, and so would query any irregularities brought to his attention by the auditors. This safeguard is likely to deter the CEO from acting in a way that is in his personal interests, rather than those of the shareholders.

Board continuous professional development

All directors should continuously develop their knowledge and skills base, concentrating specifically on the duties and obligations necessary to be effective members of the board. This would include a greater awareness of their fiduciary relationship to act in good faith and in the best interests of the company. Duty of care is a specific fiduciary duty, requiring every director to use reasonable skill and care in carrying out their tasks, and would deter both the CEO and CFO from acting inappropriately at the TR Co.

Corporate code of conduct

If TR Co developed and issued a corporate code of conduct, it would act as formal control over individuals’ behaviour. By prohibiting certain behaviours and actions, and then stipulating sanctions which could be applied for any serious breach, the code should deter anyone in the company from behaving or acting inappropriately. Therefore, if the CEO was aware that his attempts to manipulate the financial statements could result in disciplinary proceedings being brought against him, he would be less inclined to act as he did.

Safeguards which could address the threats to independence of those parties involved in the TR Co audit include:

The CFO

Corporate governance provisions include the essential role of an audit committee, which acts as an intermediary to ensure that external auditors are independent of both the company and its management. The audit committee reinforces the auditors’ independence by providing a channel of communication where they can raise any concerns or issues found during an audit, which should improve the quality of financial reporting. At TR Co, this would have enabled the audit partner to express her reservations about the capitalisation of expenses and adequacy of provisions, without needing to refer the matter to attention of the CFO. The audit team would then be assured of the full cooperation required from TR Co to satisfactorily resolve these matters before signing off the audit.

The financial controller

The promulgation of a corporate code of conduct should outline the core values of the business, together with those ethical principles based on them. It can also explain how staff are supposed to approach ethical problems, and the standards to which professionals will be held to account. This would clarify the responsibility of the financial controller and allow for the correct discharge of duties without fear of intimidation.

However, should any employee feel that they are being pressurised to act in an inappropriate way, such as sanctioning wrong accounting treatments, then a whistleblowing channel should be available. This allows for any employee to anonymously raise their concerns with an independent group of non-executive directors to investigate further.

The Shaw & Bennett audit team

As a professional firm of accountants, Shaw & Bennett must adhere to the code of ethics which governs the accountancy profession. The code should contain a conceptual framework which allows individual accountants to evaluate and address any threats to compliance which they identify in the course of their work, and promulgates safeguards to either eliminate the identified threat or reduce it to a more acceptable level. Such safeguards should include policies and procedures in the following areas:
– identify and handle any personal relationships between audit team members, including partners, and clients;
– manage the reliance on revenue derived from individual clients, such as TR Co;
– quality control policies and procedures to ensure audits are conducted properly;
– prohibiting any individual from influencing the outcome of an engagement; and
– consulting with the firm’s technical team on contentious accounting issues.

3 (a) Internal controls

The main elements/components of the internal control system at Skydda can be evaluated using the COSO enterprise risk management framework:

Control environment

This establishes the basis for how risk is viewed throughout the company and includes establishing the risk appetite, which for a pharmaceutical company like Skydda engaged in expensive research is likely to be quite risk seeking. The Skydda control environment includes the commitment of the board to maintain a sound system of internal control, which will be encapsulated in the company’s culture. This ‘tone at the top’ of Skydda describes the management style, how authority is delegated throughout the organisation, and the commitment of the board of directors to a robust and effective internal control system. The fact they have implemented a range of internal controls in all primary business areas suggests a good control environment.

Risk assessment

All risks are assessed in terms of their likelihood and probable impact on the company, which in turn defines the risk and return profile which shareholders have bought into and accept. Skydda invests significant funds in research with the aim of developing pharmaceutical products with significant future commercial values, however, this is a high-risk strategy with no guarantees of success. Good practice, as described in the COSO framework for example, encourages the use of a wide range of both quantitative and qualitative techniques to appraise any investment opportunity to ensure that any residual risk is within the company's risk appetite. At Skydda the requirement for a costed project proposal suggests that only those projects which deliver a satisfactory return for the risks faced will be approved to proceed.

Control activities

The board of Skydda should establish appropriate policies and procedures to ensure that appropriate responses to the risks assessed are effectively carried out. Such control activities are relevant at all levels within the company, and will include authorisations to conduct research, commitment of capital expenditure from approved budgets, and periodic performance and progress reviews. Collectively these control activities are usually referred to simply as internal controls.

Information and communication

Systems need to be developed to enable relevant control information to be gathered and then communicated to the right people in the organisation so that they can carry out their duties and discharge their responsibilities. This will include both internally and externally sourced information so that business decisions can be fully informed, essential for a company like Skydda where the quality of its information systems is critical to this aspect of internal control. Indeed, by effectively communicating internal control information, such as project progress reports, this will strengthen Skydda’s control environment and improve overall risk awareness.

Monitoring activities

The entire internal control system must be monitored and supervised with any significant issues reported to senior management. At Skydda operational performance, such as project progression, will be monitored by relevant management, but ultimately the board is held accountable for all aspects of business performance.

The COSO framework draws a clear distinction between the ongoing monitoring by management which allows for regular corrective actions, and the periodic review of the internal control system often conducted by the internal audit function which might identify more fundamental root causes of problems.

(b) Internal control reporting

By reporting on the effectiveness of internal controls to its shareholders, the board of Skydda will inspire greater confidence in the company’s performance. This is critical when the company engages in capital intensive research activities as it illustrates that the board is managing risks responsibly and not taking excessive risks beyond the agreed appetite. External reporting can act as a stimulus and control on directors’ decision making because it defines their accountabilities. They are unlikely to take unnecessarily risky decisions and will obtain further information in areas where internal controls have been identified as weak or ineffective.

To provide shareholders with the necessary assurance they require, the board should conduct an annual review of the effectiveness of the company’s internal control systems, which should then be formally reported to shareholders. The Skydda annual review should cover all material controls, including financial, operational and compliance controls, as well as risk management systems. The review should be conducted against the COSO elements, thereby providing a holistic assessment of the effectiveness of the internal control systems.
The main content which should be included in an effective report on internal controls at Skydda includes:

(i) A formal statement declaring the company’s willingness to take on risk (i.e. its ‘risk appetite’), together with its required supporting culture and whether this culture has been successfully embedded within the company.

(ii) Detail of the operation of internal control systems, which should also cover its design, implementation, monitoring and review. There should be a description of the main features of the company’s internal control and risk management systems in relation to its financial reporting processes.

(iii) Identification of risks and the determination of those which are considered significant to the company. Any incidence of significant control failings or weaknesses which have been identified at any time during the reporting period which may have caused material losses. This should include the extent to which they have, or could have, resulted in any unforeseen impact.

(iv) Significant changes in the nature, likelihood and impact of principal risks, alongside Skydda’s ability to respond to changes in its business and the external environment. This should include how the integration of risk management and internal controls has been incorporated into the business strategy.

(v) The extent, frequency and quality of the communication of the results of management’s monitoring to the board which enables it to build up an aggregate assessment of the state of control in the company and the effectiveness with which risk is being managed or mitigated. This in turn determines the effectiveness of the company’s external reporting processes.

(c) Information flows

Internal control and risk management are fundamental aspects of good corporate governance, which in effect means that the board is responsible for the identification and management of all risks facing the company. For the Skydda board to manage risks and review the overall effectiveness of the company’s internal control systems, it will need adequate information flows from all areas of the business.

Such information would then be used by internal audit if they are tasked to identify any control weaknesses or significant risks within the system. In this context, the control information needs to provide a complete and up to date picture of the dynamic risks facing the company, and how well the internal controls are at addressing them. For Skydda, which operates in a highly regulated environment, any changes to the protocols governing clinical trials for new drugs could have a significant impact on the time required to take a newly developed product to market.

Directors require access to information from wide and varied sources to supervise and manage the internal control systems in Skydda. The sources will come from both formal periodic reporting and ad hoc communications from stakeholders who wish to raise concerns. It is important that the information can be integrated and reconciled to provide management with a complete and accurate picture of the situation, as failure to do so could further exacerbate any control deficiency and increase the risks faced by the company. This might include analyses of major competitors to determine if they are progressing their research at a faster rate than Skydda, since if they get an influenza cure to market first it would diminish the value of any research undertaken at a high cost to the company.

Internal control systems provide the core operational information necessary to manage day to day activities in Skydda. This information will be predominantly internally sourced, detailed and prepared very frequently so that any required corrective action can be effected without delay. Operational control information will be used by organisational functions to report on a regular basis to senior management and the board about the effectiveness of all business activities. In Skydda this could include research programme managers submitting reports on product developments, including: costs against budget; progress against predetermined milestones; and notable achievements.

The assembly of accurate internal control information will be required to compile reports to shareholders and other external stakeholders. If the board is to retain the confidence and support of its shareholders it must be able to prove to them that their investments are safeguarded and likely to deliver an acceptable level of return. Internally generated financial information provides an objective basis for its shareholders to decide if they wish to retain, increase or dispose of their investment in Skydda, which is fundamental to the company’s ongoing success.

4 (a) When evaluating any public sector investment proposal, it is essential that value for money can be proven so that good stewardship of public finances can be displayed. This is because the public sector differs from the private sector in many ways, but primarily in terms of aims and purpose, sources of finance and accountability. For the Livermouth Water Authority, value for money assesses whether it has obtained the maximum benefit from the chosen water supply and distribution project from the resources available to it.

The purpose of the value for money assessment is to develop a better understanding of costs and results so that public officials can make more informed, evidence-based choices. It does not mean always going for the cheapest option, but instead ensuring that the Livermouth Water Authority gets the required quality of provision at the lowest price. To achieve this, value for money is evaluated using three criteria:

Efficiency, a measure of productivity which numerically determines the conversion of resources used (inputs) into the results achieved (outputs). To provide water to Livermouth, the Housewater proposal would have only required the transfer of the groundwater over less than 20 kilometres, whereas the Coombe Valley is located 60 kilometres away and separated from Livermouth by mountains and valleys. It is therefore apparent that the Housewater site would be a more efficient source of water for Livermouth.
**Effectiveness** is the impact of obtaining value for money and can be both quantitative and qualitative in nature; but can perhaps be best described as delivering the best result from the investment. The purpose of the scheme is to meet the growing demand for clean water from the Livermouth population, but using the limited information provided one is unable to determine the amount of additional water available from either source.

**Economic** is the price paid (the impact on people as well as actual money spent) for providing a service at best value, taking price and quality into account. The scenario states that the cost of the Coombe Valley project is five times more than the Housewater scheme, so on purely economic grounds it is hard to justify the damming of the Coombe Valley. This is further compounded by the government decision to levy this cost on to both the Livermouth population and the people of the Lambria region, who do not themselves benefit from the scheme, while hundreds are inconvenienced by it.

(b) The decision to obtain water from Lambria rather than the Housewater site also presents the Livermouth Water Authority with an ethical dilemma. The Tucker 5-question model could be used to examine this decision in both business and ethical terms by asking the following sequence of questions:

**Is it profitable?**

This question seems only appropriate to a profit seeking company and not a public sector organisation. However, if one considers the economic aspect of value for money and compares the money to be spent on the Coombe Valley project to the on-going costs of transporting water from the Housewater site, one will be able to determine the least expensive (so most profitable) option.

Although the scenario does not supply financial data about each proposal, the cost of transporting groundwater only 20 kilometres from Housewater to Livermouth is likely to be the least costly option. Consequently, it is reasonable to conclude that the answer to this question is no, the Coombe Valley project is less profitable when compared to the alternative.

**Is it legal?**

When determining the answer to this question, it must be made regarding the legal jurisdiction in which the decision is taking place. It is evident from the scenario that the government of Deeland, which has jurisdiction in Lambria where the Coombe Valley dam will be built, is supportive of the proposal, indeed they decided that it should proceed. So, the answer to this question is yes, because the Deeland government has the right to make laws and would have duly amended relevant legislation if this project breached any aspect of the law before considering the proposal.

**Is it fair?**

This question considers the varied impacts which the decision has on affected stakeholders, who may be harmed by, or benefit from it. The building of the Coombe Valley dam will affect the following groups of stakeholders:

- Several hundred local inhabitants will be displaced and forced to relocate to an area to the east of the construction for their safety.
- Animals currently living in the valley may perish when their natural habitat is flooded to form the reservoir.
- The Lambrian population must financially contribute to a dam which will supply water which they do not need.
- The Livermouth population will be provided with a plentiful supply of clean water to meet the demands of its growing population.
- Employment in Lambria will be increased as the project will inevitably draw on local and regional labour within Lambria.

From the above, the balance seems to be heavily towards harming more of the stakeholder groups, so perhaps it would be correct to answer this question as no.

**Is it right?**

The answer to this question depends on the ethical stance adopted by the decision maker, whether they adopt a deontological or teleological approach. The deontologist would be able to judge the righteousness of a decision in advance by basing it on pre-determined criteria, and providing these were universally and consistently applied, the decision could be justified on ethical grounds. A teleologist would be more concerned with cause and effect and how a decision will have consequences on others, so it may base it on which outcome is best for the greatest number of people.

Using the information provided, it would be reasonable to consider the decision as unfair from both ethical perspectives. Deontologists would question the moral right of the Livermouth Water Authority to select the most distant site, disrupting the lives of residents, damaging the environment and taxing them rather than choosing the Housewater option. Teleologists would weigh up the merits of the argument and consequential outcomes, and might find in favour of the Coombe Valley project because of what it will do for the depressed region in terms of employment, but this would depend on whether the benefit of additional employment outweighs the disadvantages of re-locating people, causing damage to wildlife and to the natural environment and raising more taxation from Lambrian residents.

**Is it sustainable or environmentally sound?**

This question requires the decision maker to consider the environmental and social impacts which the decision will have, both positively and negatively. To some extent the environmental and social footprints are being determined, and these are particularly pertinent to this decision.

The Coombe Valley dam project will require an extensive amount of tunnelling and excavation work so that the water from the reservoir can be piped to the Livermouth population, and this is in an area designated as of outstanding natural beauty. The flooding of the valley will also harm the indigenous fauna and flora, some of which is rare and protected. However, it
will provide employment opportunities during the construction works, and provide a plentiful supply of clean water to the population of the growing city of Livermouth.

However, on balance from an environmental perspective, the greater disruption and engineering works required would mean that the Coombe Valley dam project would be the least environmentally sustainable option.

In conclusion, Tucker’s 5-question model would appear to not be supportive of the ethical case for obtaining water from Lambria rather than the Housewater site.

(c) The Livermouth Water Authority, as a public sector organisation, has an agency relationship with its principals, who in this situation are both the elected government of Deeland and the taxpayers of Deeland. Because the taxpayers, who are also the electors of the government, may have their own specific demands, it can be very difficult to reconcile a public policy position which meets the needs of competing groups. Noticeably the public demonstrations in Lambria were in direct opposition to the Deeland government’s decision to build the dam in the Coombe Valley. However, the public outcry arose from the forced relocation of the population, the damage to the natural environment and the additional costs to Lambrian taxpayers. By proceeding with the project, the action of the Livermouth Water Authority conflicts with the wishes of one its principals to satisfy the demands of the other for a clean supply of water.

However, as a public sector organisation whose prime purpose is to provide a public service, its performance is centrally regulated and it is directly accountable to the government. It must demonstrate that public money is being used appropriately and that stated objectives are being met in the provision of its public service. The government in tum is answerable to the electorate, so if public policy is widely opposed, then the elected representatives and government ministers can be periodically voted out of office. In a democracy, like Deeland, political parties argue over the nature of public policy and they do so from a set of underlying assumptions which support outcomes.

The government has a duty to ensure that an adequate supply drinking water is available to the population of Livermouth, and it ultimately decides on how this is to be delivered and funded. The Coombe Valley decision is, therefore, contestable on two levels:

– Proceeding with the project against the will of the people, when a suitable and less costly and environmentally less damaging alternative at Housewater had been identified. The lobbying by the powerful and influential stakeholder, the local landowner Roger Capstone, may have directly influenced the decision. In a democracy, it is vital that government decisions are taken in the wider public interest rather than protecting the vested interests of a rich and powerful minority.

– Financing the project through a local tax, not only levied on the population of Livermouth who benefit directly from the new water supply, but also the people of Lambria who receive no marginal benefit from the project only a loss of land, can be perceived as unfair. It is the government’s responsibility to determine how public projects are to be funded and it could have decided to finance the Coombe Valley programme from general taxation, thus avoiding some of the controversy and apparent unfairness. Another alternative would be for the government to encourage private investment utilities companies, who then recover their costs from their future customers.
Professional Level – Essentials Module, Paper P1 (SGP)
Governance, Risk and Ethics (Singapore) September/December 2017 Sample Marking Scheme

1 (a) 2 marks for explanation of importance of role
2 marks for each criticism  
(10 marks)

(b) 2 marks for each condition discussed in relation to the referees  
(8 marks)

(c) 1 mark for each purpose of an internal control system to a maximum of 4 marks
1 mark for each recommendation related to the control environment at the NFA up to a maximum of 4 marks
2 marks for each recommendation related to the refereeing of matches at the NFA up to a maximum of 4 marks  
(12 marks)

(d) (i) 2 marks for each explanation of importance to supporters  
(4 marks)

(ii) 2 marks for each point assessing the damage of bribery and corruption  
(6 marks)

(iii) 1 mark for each benefit to the NFA to a maximum of 4 marks
1 mark for each point on the content of the code to a maximum of 4 marks  
(6 marks)

Professional marks for clarity, persuasiveness, flow and appropriate structure  
(4 marks)

(50 marks)

2 (a) Up to 3 marks role of the CEO described
Up to 2 marks for each criticism of CEO action explained with action suggested
One mark if no recommendation of appropriate behaviour  
(up to 3 marks  up to 4 marks  (Max 7 marks)

(b) Up to 2 marks for the CFO threat to independence
Up to 2 marks for financial controller threat to independence
Up to 2 marks for Shaw & Bennett threat to independence  
(up to 3 marks  up to 3 marks  up to 3 marks  (Max 6 marks)

(c) Up to 2 marks for each safeguard to prevent conflicts
Limit to one mark if not related to TR Co
Up to 2 marks for each safeguard addressing threats to independence
Limit to one mark if not related to TR Co  
(up to 6 marks  up to 6 marks  (Max 12 marks)

(25 marks)

3 (a) Up to 2 marks for each element of an internal control approach evaluated?
Limit to one mark if not related to Skydda  
(up to 12 marks)

(b) Up to 2 marks for each need of reporting to shareholders explained
1 mark for each element of the internal control report described  
(Max 8 marks)

(c) Up to 2 marks for each need of information flows
Limit to 1 mark if not specifically related to Skydda  
(Max 5 marks)

(25 marks)
4 (a) Up to 2 marks for a contextual introduction of value for money
Up to 2 marks for efficiency as a criterion for comparison
Limit to one mark if not directly related to the water diversion project proposals
Up to 2 marks for effectiveness as a criterion for comparison
Limit to one mark if not directly related to the water diversion project proposals
Up to 2 marks for economy as a criterion for comparison
Limit to one mark if not directly related to the water diversion project proposals
(Max 8 marks)

(b) 2 marks for each of Tucker’s 5-questions used and applied to the information correctly
Limited to one mark per question if not used to evaluate the moral case described in the scenario
(Max 10 marks)

(c) Up to 2 marks for each contestable point of public sector policy discussed
Limited to one mark if not specifically related to Deeland
Up to 2 marks for each discussion of how the drinking water project should be decided upon
(Max 7 marks)
(25 marks)