

STRATEGIC CASE STUDY

LINGUANIA: 6 September 2022

MARKING SCHEME

The answers detailed below show some but not all possible answers that were accepted by the marking team. Marks were awarded for other valid answers that might not be included in this document.

Key to marks:

Calculations or the manipulation of numerical data

Most calculations will be straightforward such as the creation of accounting ratios to interpret financial performance, or assessment of the sensitivity of particular estimates.

Some specific calculation marks may be allocated but candidates should not be judged solely on whether figures are 'correct', but on how they reached their figures and the reasonableness of their assumptions and approach.

Narrative

The candidate will be required to demonstrate in their narrative responses, an assessment of the impact and implications of the analysis performed and application of appropriate elements of the syllabus as part of further critical evaluation. Narrative responses should demonstrably inform decisions being faced within the case scenario.

Marks will be awarded for the evaluation of the information given in the context of the specific issues raised by the case scenario. It should demonstrate consideration of an appropriate breadth of issues, such as financial and non-financial perspectives, stakeholder considerations, ethical considerations, strategic risks and the strategic objectives and environmental context of the organisation. Candidates will be expected to demonstrate professional judgement in drawing from this evaluation appropriate conclusions, making practical and relevant recommendations and focusing their answer to suit the user(s).

The allocated marks should again be seen as a guide. Some additional credit may be awarded (within the total marks available for the section concerned and subject to the requirement for appropriate coverage of a breadth of relevant issues) for points which have been developed with particular insight or cogency.

The marking scheme will identify (in bold) points of particular significance for which marks will be ring-fenced. This will limit the marks awarded to candidates who miss the most salient issues.

Reasonable credit may also be given for any points which have not been included in the marking scheme but are clearly valid in the context of the candidate's own calculations or preceding analysis.

General comments

It is essential that candidates answer all the questions as set and meet the requirement to achieve a minimum of 25% of the marks available for each question.

Any attempt to evade the terms of the question on the grounds that the situation depicted in the examination scenario is unlikely to have arisen or occurred, or is improbable in concept, should not be awarded any credit.

Question 1 (65 marks)

Q	Response points	Marks	Syllabus content	App St'd
1(i)	<p><i>Assess the governance arrangements at KLC, including responses to the issues raised by the CEO regarding the Board in her email of 5 September.</i></p> <p>Narrative content: 1 mark per developed point to a maximum of 12.</p> <ul style="list-style-type: none"> • There is clarity of purpose for KLC, in that KLA 2001 sets out its overall responsibilities and a mission statement is in place, which is a key aspect of effective governance. • There appears to have been problems in retaining the CEO for any length of time, with 5 different people in post since 2012, with lengths of service varying from 9 months to 3 years), which may be indicative of sub-optimal governance. • There is a Board and a committee structure in place, with some evidence that these are reasonably active. • The 2021 external (additional scope) audit highlighted governance as a key area of concern, and the Audit Committee was specifically criticised in the report. All of the areas subject to criticism in the external audit report, are ultimately the responsibility of the Board. • Further, the relatively narrow range of experience evidenced by Board members who were in place when the audit was undertaken may also link to the auditor's criticisms about arrangements in areas such as financial management and performance management. • Some action has been taken to respond to external audit criticisms, with the establishment of the IPTF, reporting to the Audit Committee, but there is relatively limited evidence of tangible progress towards implementing the audit recommendations given that the report was received around 5 months ago, which points to weaknesses in Board oversight. • There are only 6 Board members in place at present, and as few as 5 for the first half of 2022, when the legislation allows for up to 13 members. The fact that the Board has carried vacancies for so long may mean that it has been unable to direct and oversee arrangements in these areas (e.g., performance management and financial management) sufficiently effectively. • It would probably be difficult to effectively resource three committees with so few members. Currently, each member, including the interim 	12	<p>CGL: H1-H3;</p> <p>SPF: B2</p> <p>AA: A6</p> <p>SCS: A1-A4, A6; B1-B4; C1-C2; D1-D3</p>	<p>K: ARC, BA, LSP, SBMG;</p> <p>S: BI, C, L,</p> <p>PSDM; B: AV, F, PS</p>

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	<p>Chair, is on two committees, which does not appear to be sustainable.</p> <ul style="list-style-type: none"> • Due to the high number of committees each member currently needs to be on, it is highly likely that most, if not all, will have taken on a committee role that is not well aligned with their skill set. • The interim Chair of the Board is unlikely to be able to give the role of chairing the Board necessary attention while also being involved in two committees. • The establishment of the IPTF adds further to the workload of members as it is being chaired by one of them, Julie Karig. • Although the new member added in June 2022 possesses finance expertise and experience, there was no evidence of such expertise on the Board for the preceding months of 2022, and even with this new appointment it is unclear that this would provide sufficient finance expertise on the Board, especially in light of the issues of a financial nature that face KLC. • All five members in post in January 2022 will leave by 2023 or 2024 as eight years is the maximum term of office. This will mean a large turnover in a short period, with a lot of experience being lost and a largely new and inexperienced Board in its place. • Also, as recruitment is slow, and potentially difficult given that it seems that few (or maybe no) new appointments appear to have been made between 2016 and June 2022 (unless people were appointed in that time but left the Board before 2022), it needs to be planned well in advance of need. • It seems logical to prioritise the recruitment now to maximise the chances of a smooth transition, allowing new recruits to learn from the experience of current members before their term of office ends. • There has been difficulty in attracting suitable candidates in the past, including those with relevant language skills. There must therefore be some doubt as to whether KLC could recruit 5 members in the course of 1-2 years to replace 5 members due to leave in 2023/2024, let alone increase the number of members to fill the existing vacancies. • As well as maintaining or increasing numbers, the Board needs to have a good spread of expertise, specialisms, backgrounds, sectors, etc which adds to the complexity of the recruitment process. • KLC may need to relax some of the language requirements in order to attract and recruit enough new members and have the right range of 			

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	<p>expertise on the Board. Almost half the applicants in the most recent round of recruitment were rejected because of a lack of language skills, drastically reducing the pool that KLC are recruiting from.</p> <ul style="list-style-type: none"> • KLC has a responsibility to ensure that the Kiliac language is central to its activities, but it may need to find creative ways of working so that it is not overly restricted in its recruitment of members and staff. This may be through offering language development support for recruits who require it, or designating some roles as not requiring the same level of language ability as others. • As an ALPB, KLC has added flexibilities compared to other public bodies. Though it seems to need to follow Ministry recruitment processes via ALPB, there may be relevant flexibilities not being exploited that may enhance the attractiveness of its Board roles. For example, if there are salary flexibilities for staff, this may extend to flexibility regarding remuneration for Board members or other aspects of its governance arrangements. • It is questionable whether a body the size of KLC requires a Board, three committees, and the IPTF. One option might be to reduce the number of committees to two, which would remove the need for all members to serve on two committees. • Increasing the number of members from the current number would also provide more flexibility – e.g., increasing the number of members on each committee (making it easier to ensure meetings are quorate), and removing the need for the interim Chair to serve on committees. • A further option is to supplement membership on committees through co-opting suitable individuals. This could be used simply to increase numbers where needed, to bring in specific expertise where there are gaps, or to provide a useful source of future full members if the co-option is successful. • The Chair role is currently being filled on an interim basis and has been all year, despite the incumbent not being interested in doing the role on a permanent basis. This ongoing situation creates a lack of certainty over the role and may undermine the authority of the Chair. • The situation with the interim Chair may also indicate a lack of leadership within the Board if nobody is stepping forward to fill this role. • The time taken to appoint a permanent chair also adds to the uncertain situation and provides a picture of an organisation that is not fully in control of its governance arrangements. 			

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1(ii)	<p><i>Critically evaluate the way in which the Audit Committee at KLC is set up and how it operates, including reference to the principles set out in the Linguania Government guidance on audit committees.</i></p> <p>Narrative content: 1 mark per developed point to a maximum of 12, with a minimum of 2 marks reserved for each principle.</p> <p><u>Principle 1: Independence and objectivity</u></p> <ul style="list-style-type: none"> • It is set up as a separate committee, with its own terms of reference, so to some extent it is independent from the rest of the governance structure. • The Committee Chair is able to set the agenda for committee meetings, further reinforcing its independence. • The Committee members have been members for most of their time as Board members and are well into their second term, so may not be able to bring an objective and fresh perspective on some of the issues. • Though, as is appropriate, the Committee approves the annual Internal Audit plan, it is unclear how much the Committee scrutinises or influences the plan, or whether this is simply created by the HoFGS based on his priorities or interests instead of a robust assessment of risks associated with KLC's strategic and operational objectives and activities. • KLC staff are not appointed to the Committee, so it is appropriately independent of the KLC executive. • KLC staff, particularly from the leadership team, attend and support the committee. This helps to ensure that the Committee is informed of relevant activities and developments in the organisation. • The response of the Committee Chair to external audit criticism was arguably unduly defensive and may suggest some resistance towards reform or improvement of the Committee's work and operating practices. • There is concern that there seems to be an assumption that where there are gaps in committee expertise, the attendance of KLC finance staff can plug that gap, which would not be appropriate in terms of ensuring effective independent scrutiny by the Committee. <p><u>Principle 2: Relevant skills</u></p> <ul style="list-style-type: none"> • Committee members have received recent relevant training on the roles and responsibilities 	12	AA: A6; CGL: H2-H3 SCS: A1-A6 B1-B4; C1-C2; D1-D3	K: ARC, BA, FI, LSP, SBMG; S: BI, C, EI, L, PSDM; B: AV, F, PS

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	<p>of audit committees and there is evidence of other training activities for current Committee members over the past few years.</p> <ul style="list-style-type: none"> • However, it is unclear whether the past training delivered was as a result of a robust training needs analysis linked explicitly to the nature and objectives of audit committee work and the development needs of its members. • Current members include one with business and local government background, one with academic background, and a journalist who is currently chair of the Committee. It is questionable whether this mix of backgrounds is likely to provide the overall set of skills and expertise required for an effective Audit Committee. • The Committee does appear to have lacked any clear financial skills, but there is scope for this be addressed in due course by the addition of Alexander Bolk to the Board. However, there may be a case for having more financial expertise on the committee, to prevent a situation where the other committee members assume the new member will deal with all the financial issues, or the committee relying too heavily on KLC finance staff. • To fulfil its role, the Committee needs to have sufficient members with relevant skills. It is noted that three members joined in 2015 and one in 2016, so all are fairly close to completing their terms of office, so a lack of experience may soon be an issue if they all leave close together and there appears to be a lack of effective forward planning to ensure an appropriate mix of more experienced and newer Committee members. • It is not clear if the Committee have recently reviewed the overall skill set required to operate efficiently. This would be worth addressing before the next round of appointments to the Board so that relevant skills can be specified in the recruitment process. • The Committee has the power to co-opt members to supplement existing skills, but there is no evidence it has ever done this or is currently considering this. • Committee meetings are held in English, so Kiliac language skills are less of an issue in its work. It is of note that 5 candidates were rejected in the last member recruitment round because of their level of language skills, even though they had experience and skills that could be useful to KLC and potentially the Audit Committee specifically. This may lead to 			

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	<p>questions as to whether KLC needs to only appoint Board members who have a high level of Kiliac language ability.</p> <p><u>Principle 3: Clearly defined role and scope</u></p> <ul style="list-style-type: none"> • As over half of the Board’s membership is on the Committee, including the interim Chair of the Board, they may be spread too thinly to effectively perform their role. • The Committee has terms of reference setting out its role, membership, etc. However, it is unclear if it references to the scope of its work are as broad as envisaged by the government guidance. There is some indication that the Committee’s principal focus is in relation to the cycle of internal audit reports focused on audits of internal control – there is no evidence that the committee has been focused on areas such as risk management for example. • It is appropriate that the Committee receives internal audit (IA) reports to provide assessment of KLC systems and procedures. However, the current resourcing of IA may be inadequate with only one report produced so far this year, and indications that the problem is likely to continue if resourcing is not addressed. This may make it difficult for the Committee to fulfil the breadth of its expected role overseeing KLC’s governance, risk management, and internal control. • The list of areas on which IA should report to the Committee (and the Committee to the Board) may not be fully met. For example, there is no evidence that an annual IA opinion is provided, an IA strategy is in place, and there has been no annual IA report presented since 2020. Nor is there any reference to IA performance review. • External audit also noted that there have been no IA reports on risk management or governance matters in the past 3 years. These issues are critical to the work of an audit committee and the lack of reports suggest poor coverage of key matters by IA, and also lack of focus from the Audit Committee in ensuring that it fulfils the role expected of it. • Modern IA functions also typically conduct a broader range of activities, such as performance audits, not just audits of internal control. The external audit criticism of KLCs performance management arrangements may have been less likely to have happened if IA had been engaged in performance audit work as it may have made recommendations to strengthen performance management, including VFM identification and monitoring. 			

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	<p><u>Principle 4: Effective communication with, and reporting to, stakeholders</u></p> <ul style="list-style-type: none"> • The external audit report brings into question how well the Committee is communicating with external audit. There may be simple mechanisms to improve this – e.g., inviting an external audit representative to Audit Committee meetings, having regular meetings/correspondence between the Audit Committee Chair and external audit, etc. • The response of the Committee Chair to the external audit report suggests that the Chair does not fully accept their assessment. This may indicate a poor relationship between the Chair and external audit, which would both go against this Principle, and may undermine the work of the IPTF to address the audit recommendations. • There has been no Annual Report from IA since 2020's report. In principle, such reporting would be a useful way of demonstrating how its role has been fulfilled during the year, and for the Board to review or question the Committee's activity as appropriate. The fact that it hasn't happened and it hadn't been noticed by the CEO, and presumably the Board, until now, calls into question the effectiveness of the reporting process. • It also seems that the Annual Report, when produced is more narrowly focused than is ideal by focusing primarily on collating the findings of individual IA reports, rather than the broader range of content as laid out in the government guidance. • Communication between the Committee and Board is also crucial. This is a largely formal process, and may be achieved through reporting to each Board meeting via minutes of previous the Committee meeting. This should not, though, be a simple 'nodding through' exercise; the Board should actively review the Committee's work and ask questions where necessary, which may be less likely to be the case if the reporting is solely based on the sharing of the Committee's minutes of meetings with the Board and Accountable Person. <p><u>Overall evaluation</u></p> <ul style="list-style-type: none"> • Only having four members leaves the Committee vulnerable if one or more members is unavailable to attend a meeting. It also leaves the Committee vulnerable to members leaving their role at short notice, especially as it takes time to appoint new members. • Even if there is full attendance, as appears to generally be the case, if any members declare a 			

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	<p>conflict of interest, this may leave the Committee unable to debate issues or make decisions if not quorate.</p> <ul style="list-style-type: none"> • With so few members it is difficult to have a sufficiently wide range of skills and expertise within the Committee. This could be addressed by co-opting additional members with specific skills, but the Committee has not used that facility to date. • One Committee member, Julie Karig, is also acting as chair of IPTF, which may leave them with less time to devote to Committee work. As the IPTF reports to the Audit Committee, this further adds to its responsibilities and workload, which may make it difficult for the Committee to fulfil all its responsibilities effectively. • Although it has a role in receiving Internal Audit reports, the Internal Audit function is not able to fulfil its annual plan effectively. This means that the Committee is unable to exercise its role in ensuring the organisation has adequate internal controls and is operating efficiently and effectively. • It also appears as if the Committee has been unable to ensure that the ideal breadth of its remit, as per government guidance, is being discharged. Whether this is due to its limited capacity, skills mix or the capacity/capability within Internal Audit is unclear. • The Committee should arrange for a thorough assessment of the range of skills required to operate effectively, using the government guidance as a starting point, and should also identify skills that are 'desirable'. This should be used as the basis for future training of Committee members, for informing the recruitment process for new members, and identifying areas where co-opting additional Committee members would be beneficial. • The Committee may need to consider the extent to which it requires Committee members (either full members, or co-opted members) to be fluent in Kiliac, as the Committee business is conducted partly in English and partly through bilingual reports. Although having Kiliac speakers may be an important aspect of KLC's identity, from a practical point of view there may be a need to take a flexible and pragmatic approach if recruitment of fluent Kiliac speakers is problematic. Evidence from the recent round of recruitment indicates that some candidates with relevant skills were rejected because of their lack of Kiliac language ability. 			

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1(iii)	<p><i>Critically evaluate the options that are potentially available to KLC for the provision of an internal audit (IA) service.</i></p> <p>Narrative content: 1 mark per developed point to a maximum of 14, with a minimum of:</p> <ul style="list-style-type: none"> • 2–1 marks for critique of the survey information • 4–2 marks for evaluation of the current model • 5 marks for evaluation of the dedicated in-house and outsource options • 2 marks for other potential options <p>Survey information</p> <ul style="list-style-type: none"> • It is important to note that no information has been provided on how the sample of the other organisations was selected and how the data on each organisation was gathered and analysed, nor what proportion of the population it is. This means it is difficult to know how much reliance can be placed on the results of the survey. • Although an independent research consultancy was used to carry out the research, the HoFGS says that he commissioned the research. He also has an interest in the issue being researched as IA is part of his role, so the way the research was commissioned may not have been as objective as is required to support decisions on KLC's future IA service provision. • The HoFGS also highlights in his email the fact that the KLC approach appears to be the most cost effective, which may indicate his desire to continue with the current approach rather than to seriously consider alternative options. • Surveyed organisations using other approaches to deliver IA, with outsourcing the most popular, are typically larger, in terms of headcount, which may indicate that other such approaches may not be cost-effective for KLC. <p>Current approach</p> <ul style="list-style-type: none"> • The current approach at KLC (whereby the IA role is included in the job description of HoFGS) is only used in one other organisation in the sample of 15, albeit that organisation is similar in size to KLC in terms of total headcount. • There may be an argument that this is an appropriate approach for an organisation of this size, as the extent of the IA role may be reasonably small and therefore manageable alongside other finance duties. Although the comparator organisation has a similar total 	14	AA: F1, F2; SPF: B1 SPD: D3 SCS: A1-A6 B1-B4; C1-C2; D1-D3	K: ARC, BA, FI, LSP, SBMG; S: BI, C, EI, L, PSDM; B: AV, F, PS

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	<p>headcount to KLC, it's not clear if its finance section is of a similar size.</p> <ul style="list-style-type: none"> • The current arrangement may also be more attractive financially, as the cost is much less than the other two options in the sample and it is not clear that KLC could afford more expensive arrangements without making compensatory cuts in expenditure in other areas. • An inherent problem with combining the IA role with other finance roles carried out by the same person(s), is that the IA activities may lack the necessary independence and objectivity. Having a dedicated IA team or outsourcing the activity should inherently provide more independence and objectivity. • The shortfall in IA activity over recent times was blamed on staff shortages including as a result of the pandemic and additional responsibilities arising from EA report criticisms. This suggests an attitude in KLC that IA activities are less urgent or important than other finance duties. So, as well as structural issues, there may be cultural issues about the importance attached to IA activities and reports by the HoFGS, and potentially by the Audit Committee if they are not pressing for the situation to be rectified urgently and IA plans to be delivered. • The range of audits has also been limited under current arrangements, as the same processes and functions are being reviewed every few years and the focus is solely on compliance audit. No performance audits are being carried out. This may be because HoFGS does not have relevant skills for this work, or simply because it they are not seen as a priority. • It may though be inappropriate to apply too much emphasis on current failings in IA, as these may be partly due to pandemic pressures rather than inherent flaws in the IA arrangements themselves. It may be worth looking at how effective the IA reporting was in previous years as a comparator, if that information is available. • If the current model is retained, it will need to be improved so that it operates more effectively than it does at present. There appears to be a reasonable approach to annual IA planning, as part of an overall strategy, whereby an expected number of IA reports are presented to the Audit Committee, but this is not being followed in practice. 			

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	<ul style="list-style-type: none"> • However, there is a case for a more sophisticated approach to planning based on regular risk assessment of the whole range of KLC's activities, and to consider whether other forms of audit, such as performance audit, should be included and it is not clear if this would be feasible with the current arrangements. • If the current approach is continued, there may be a need for training and development for staff in IA methodology, teamworking, planning, etc, to make the approach more effective, which may not be affordable. • It is not clear to what extent either of the HoFGS staff reports are expected to be or are involved in IA work. While it seems likely that any internal solution would require the HoFGS to have significant involvement in the delivery of IA work, it may be that more extensive involvement of his team in IA work, if suitably trained, may be a sensible way forward, reduce the risk of the work being de-prioritised and improve succession planning. <p>Dedicated in-house team or outsourcing model</p> <ul style="list-style-type: none"> • Given the cost identified for those organisations that have a dedicated IA team within their Finance department, it is highly unlikely that this would represent a cost-effective option for a relatively small organisation like KLC. • The in-house finance team would be challenging to establish, in that it is likely to involve considerable upheaval for the current Finance team and, recruitment to the new IA function and/or to backfill Finance functions. Of these two approaches, it would probably be a far quicker process to opt for the outsourcing model. • Both options are more likely to be able to give IA work priority, and, based on recent IA activity, the current arrangement seems to allow the IA work to be de-prioritised. • Both models are likely to be able to ensure the separation from other finance processes that the current model probably cannot realistically provide, thereby considerably reducing risks of self-review and over familiarity. • Both options should give access to a service provided that is dedicated to audit, and so able to ensure continued investment in the professional development of the staff concerned and be in tune with, and able to apply, current best IA practices. 			

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	<ul style="list-style-type: none"> • The above issue is something that may be even more significant for the outsourced model given the potential for benefits, including economies of scale, derived from supplying IA services to multiple clients. • The management of IA on a contractual basis via the outsourcing option should provide some added certainty as to service delivery, if the specification is drawn up well and the contract managed effectively, as there would be some kind of redress should performance be less (quantity and/or quality) than specified in the contract. • Moving to a more contractual basis for the IA work should make it more straightforward for KLC to commission other forms of audit should the Board, via the Audit Committee, consider that to be a priority, which is perhaps likely given the criticisms in the external audit report. • However, one possible risk with an outsourced approach, is that KLC may lose much of the flexibility that should be inherent in an internally managed service, albeit that recent practice suggests that flexibility has not been present except in the redirection of planned IA resource to other finance activities. • If outsourcing is pursued, the HofGS's job description would need to be amended to match the new arrangement, and there could be issues in identifying how the 25% of it that is currently expected to be allocated to IA work is to be reallocated in future. • It may be that it will be necessary to generate cash savings in this area in order that KLC can afford an external IA contract, which could be very difficult to achieve in practice given that the current function is only part of a full-time employee's job role. • If IA is outsourced, having this plus an external audit, especially one that has recently issued a report highly critical of KLC, may lead to KLC employees feeling over-audited and reduce their cooperation with auditors. • KLC should also bear in mind the level of work (and associated costs) and expertise involved in processes up to the point of tendering and tender selection (in particular service specification and tender evaluation and selection) and in contract monitoring and performance review. <p>Other potential options</p> <ul style="list-style-type: none"> • There may be ways of combining options, rather than simply using one of the listed options. For 			

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	<p>example, KLC could continue with using HoFGS for part of the IA work plan, but bring in external expertise for specific audits, especially where key skills are required (such as performance audits).</p> <ul style="list-style-type: none"> • There are other potential options to also consider, in particular some form of strategic alliance with other ALPBs and/or other public bodies. It is not clear whether such alliances are a feature of Linguanian public service activity, but they are common in other countries and may benefit an organisation of KLC's size if so. • Most of the potential pros and cons of the outsourcing option, relative to the current model, would also apply to varying degrees to the different forms that a strategic alliance could take, such as a joint venture or a shared service arrangement. But it may be possible to form an alliance that provides the potential benefits of outsourcing, but with added flexibility to meet KLCs particular needs especially given its small size. 			
1(iv)	<p><i>In light of the findings of the recent external audit report, analyse the change management issues facing KLC, and discuss practical options for ensuring that the change management is implemented effectively.</i></p> <p>1 mark per developed point to a maximum of 14, with a maximum of 8 marks allocated to each of 'issues faced' and 'effective implementation'.</p> <p>Issues faced</p> <ul style="list-style-type: none"> • The speed of change required is fairly rapid, as the organisation needs to respond to the external audit report over a short timescale to demonstrate progress and action, and a number of months have already elapsed without significant progress seeming to have been made. • The extent of change required could be significant too, as the audit report identifies issues in all key areas of the organisation (under headings financial management/ procedures, governance, performance management/ VFM) and a large volume of issues to action. • Of the four classes of change identified by Balogun and Hope Hailey (adaptation, evolution, reconstruction, revolution), KLC is probably looking at a reconstruction to address the audit 	14	BCM: C1-C3 SCS: A1-A4, A6; B1-B4; C1-C2; D1-D3	K: ARC, BA, FI, LSP, SBMG; S: BI, C, EI, L, PSDM; B: AV, F

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	<p>report recommendations and make necessary changes.</p> <ul style="list-style-type: none"> • This is potentially going to be very disruptive, as staff need to respond to a number of different changes in a short period, affecting a wide range of the organisation's activities and procedures. • Based on indications from the staff survey and the response of the Audit Committee Chair and CEO, there is potential for significant resistance to the change from staff and other stakeholders, especially if it is not made clear that changes are necessary and beneficial in the longer term. • The fact that the changes are in response to the external audit report gives them some legitimacy and authority, and this may help to reduce potential resistance from stakeholders, though the initial reaction from some people suggests that this will have limited effect without other interventions to outline the case for change. • The roles and responsibilities of KLC are not being altered, so there is no fundamental change in organisation vision or mission. However, some of the criticisms may indicate a need for a change in attitudes amongst some staff or members – e.g., in the priority given to some activities. This may indicate some need for cultural change in the organisation, which would add to the scope for resistance and the difficulties associated with implementing change. • Evidence from the staff survey suggests that some staff want to have autonomy to decide their own work practices rather than have to follow approved policies and procedures. This may lead to them resisting changes aimed at achieving better efficiency and effectiveness through more formal processes and approved policies that are to be followed by all staff. • Barriers to change may come about in part as a result of the culture of the organisation. If the changes threaten existing power structures, or agreed norms, or if current reward systems are inconsistent with the new ways of working, it is to be expected that staff will resist the change. • In addition to cultural barriers, it is possible that there will also be individual worries which cause people to resist organisational change, for example the impact on individual job designs, workload pressures etc. • High absence levels in recent times at KLC may be an indicator that staff motivation levels are low, which may be a further source of resistance. If so, this may be associated with the uncertainties caused by the recommendations in 			

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	<p>the audit report and the organisation's response to date.</p> <ul style="list-style-type: none"> • One of the strengths of KLC is having a committed and loyal work force. This can create a strong bond between staff and organisation, creating a psychological contract, and this can be threatened by significant or rapid change in the organisation. Understanding the importance of the psychological contract for employee morale and the impact it can have on expectations can help the change agent to plan the change more carefully. • Although the IPTF has been set up and other actions taken in response to the audit report, no work to date has been done on obtaining change agent support. This may indicate a desire to do as much of this work in house as possible, but there are dangers in this approach due to the volume of work (98 actions) and the specialist nature of this type of change. Appointing a change agent therefore needs to be given higher priority. • The urgency of the changes required and the delay so far in identifying such change management support, internal or external, means that the process is already, in effect, at least partly under way via the IPTF, which reduces the opportunity for careful and considered planning of the change management exercise. • As KLC is a small organisation, it may be unlikely to have the expertise (leadership, building relationships, keeping sight of bigger picture, communication, problem solving, negotiation etc) to plan, manage and implement a major change programme, so an external change agent may be needed to provide the specific skills and expertise needed. • There may, though, be a budget issue for KLC. The finances of KLC seem quite rigid in terms of virement and the audit report was received 4 months into the financial year. It therefore doesn't seem likely that an external change agent will have been budgeted for & it may be challenging to create the budget flexibility in 2022 to afford one at this point. • KLC needs to be aware of the needs of different stakeholders in terms of being kept informed of the change management process and their ability to influence this. Some analysis of the potential power and interest level for each group would 			

Q	Response points	Marks	Syllabus content	App St'd
	<p>therefore be appropriate to inform how best to manage relations and communicate with different stakeholders, an area that was criticised in the external audit report.</p> <p>Effective Implementation</p> <ul style="list-style-type: none"> • It will be important for KLC leaders to establish a compelling change vision to provide a picture for stakeholders of what the organisation will look like after the change has been implemented. If done well, it serves to motivate people and it is essential to any successful change programme. • A change agent seems likely to be key to delivering the change at KLC. Change agents can be internal or external. As KLC is unlikely to have the capacity or expertise to deliver this successfully and as KLC has to make a large number of changes to processes, structures, etc in a short space of time, there is an argument (as put forward in the audit report) that they would benefit from external support to achieve this. • Such support would also partly aim to increase the overall physical capacity of staff resources to deliver the change required, as this work is mainly additional to the ongoing duties of staff at KLC and it may be unlikely to have the spare resources available to allocate the change agent role to a member of staff. • There is a question mark about whether the change agent would need to be in place in 2023, and, if so, for how long. It seems likely given the volume of recommendations, the scale of change and that the more complex actions are targeted at a 31 December 2023 delivery date. If so, it would be wise for KLC to make the case to the ministry now as it is likely that its budgeting work for 2023 will already be underway. • The following actions with regard to KLCs various stakeholders would be appropriate: <ul style="list-style-type: none"> ○ The Board and Audit Committee, which are currently represented on the IPTF, require regular reports from those responsible for managing the change, and for their views to be represented and heard. ○ KLC's senior managers, who are currently represented on the IPTF, are likely to be given direct responsibility for implementing the recommendations and ensuring ongoing management of KLCs activities, so they need to be kept regularly informed of progress. 			

Q	Response points	Marks	Syllabus content	App St'd
	<ul style="list-style-type: none"> ○ Staff, who have some current representation on the IPTF, have a clear interest in the plans and need to be kept regularly informed of progress. <ul style="list-style-type: none"> ○ They may be concerned by the volume of changes being implemented over a short period and the impact on the workload of individuals and teams. ○ They may also be concerned by changes which have an adverse effect, as they see it, on the organisation's culture, bearing in mind that the staff survey suggests that the way that KLC operates was reported as a significant positive feature of working there. ○ They may also be keen to see that training and development needs arising from changes to roles and activities are prioritised, especially as in the staff survey results, it was the area with the least positive response. ○ Funded organisations will probably feel little direct impact from the changes but should be kept informed periodically. <ul style="list-style-type: none"> ○ They may have a general interest in KLC improving its efficiency and effectiveness. Some complain about the process of applying for and receiving grant funding from KLC, so changes that make this process more efficient would be a positive change in the eyes of the organisations concerned. ○ They may be a source of reputational risk for KLC if they develop a negative perspective of KLC as a result of the audit report and the ways in which KLC responds to it. ○ The ministry sponsor team is a key stakeholder. They have inherent power, but not necessarily a high level of interest though this may have been increased as a result of the critical audit report. It will be important for KLC to maintain good regular communication with them to seek to provide reassurance that they are responding effectively to the audit report. 			

Q	Response points	Marks	Syllabus content	App St'd
	<ul style="list-style-type: none"> ○ External auditors are also key; though they do not require regular communication, future reports are less likely to be critical if external auditors are able to see a clear, robust plan for responding to their recommendations and evidence of improvements being made. ○ There is a reputational risk as a result of the audit report and how KLC respond to it, so relationships with the media could also be key. Although KLC is a small organisation operating in a specialist area, any public body runs the risk of adverse media coverage after reviews of this kind, especially if the response is ineffective and further criticism follows. A strategy for public relations and media communications should therefore be drawn up with regular press releases evidencing improvements being made. • As well as implementing a large number of recommendations for change, KLC need to ensure that they don't undermine the things they are good at in the change process. The audit report noted the commitment of staff to the organisation and its mission in relation to the language, and this is a valuable feature that KLC will want to retain and which could be threatened by a poorly managed change programme. • Losing staff as a result of the changes themselves, or the way the change is managed, would probably be counterproductive. The issues of managing staff, involving them in the change process, keeping all staff informed, and dealing with any resistance, are all important in ensuring that KLC retains these positive aspects of its current set up. • KLC currently have staff who are committed to the organisation, agree that the goals and mission are clear, and find their work interesting (according to the staff survey). Making radical changes to the organisation risks upsetting this situation, so finding ways to implement change that does not impact negatively on the aspects of the organisation that staff are happy with would be beneficial. • At the same time, it may be helpful to identify why staff are less happy about the management and leadership in the organisation, and the training and development opportunities, so that these can be addressed during the implementation of other recommendations. Using an external change agent might be helpful in 			

Q	Response points	Marks	Syllabus content	App St'd
	<p>identifying the reasons behind these staff responses.</p> <ul style="list-style-type: none"> • The change agent can play a role in reducing staff resistance, and they should adapt their role to match the needs of the employees as they move through the change process ('curve'): <ul style="list-style-type: none"> ◦ Inform: During the initial stages of shock and denial the role of the change agent is to provide as much information as needed and provide opportunities for staff to ask questions and express concerns. The role of the change vision statement will be key in communicating the benefits of the change and helping staff to buy in to the changes. ◦ Support: As the inevitability of change is accepted, the change agent should provide practical and emotional support. Training sessions should provide staff with the knowledge and skills they will need in their new roles and provide clear guidance on the behaviours and attitudes that will be expected. ◦ Reinforce success: As employees accept the new ways of working, they must experience the benefits for themselves. This may be through the linking of rewards to the results which can now be achieved, an improvement in their experience at work, and/or some form of gain sharing arrangement. • Once the changes have been made, the change agent needs to find ways to embed the changes so that new becomes normal and the envisaged benefits can be realised. This work may involve amending documentation, such as revised organisational policies and procedures or manuals, amending job descriptions, setting up appropriate training and development interventions, etc. • A danger of this type of change is that the organisation focuses on formal developments (e.g., revising documents), and does not address the need for staff to change and develop in their ways of working or for culture to change. Or, it can be that changes are made in a superficial manner as part of a 'tick box' exercise, without ensuring that these changes actually change behaviour in a sustained manner. • Some monitoring and appropriate reporting therefore needs to be set up. For example, once a procedural document has been amended and approved, a check should be made at a set date to report on whether the new procedures are 			

Q	Response points	Marks	Syllabus content	App St'd
	being followed and also whether these are actually having the desired effect.			
1(v)	<p><i>Discuss the approach KLC should adopt to assessing the value for money (VFM) that is achieved from the Type 1 and Type 2 grants that it awards to external organisations, and assess the concerns expressed by those organisations regarding the grant application, allocation and reporting processes and how KLC should respond.</i></p> <p>Narrative content: 1 mark per developed point to a maximum of 13. Up to 8 marks for discussing VFM approach (clearly-linked to based on the 4 E's framework), with a minimum of 1 mark reserved for each E, and up to 8 marks for addressing the concerns of funded organisations. Credit should be given for different examples of the application of the 'Es to those provided below, so long as they can be linked credibly to KLCs work.</p> <ul style="list-style-type: none"> To begin with, it is essential that KLC are clear about, and document, the objectives that lie behind decisions to award particular grants, and how these link to their wider strategic objectives and mission. Without clarity over this, it is impossible to determine suitable measures of performance associated with the grants awarded. While the staff survey reveals that staff believe that KLC's objectives are clear, it is potentially of note that the external audit report pointed to staff lacking clear objectives as a criticism. As staff will be making decisions and recommendations about grant awards, this may indicate the potential for a disconnect between organisational and staff objectives which could also mean that decisions over grant awards may not be as aligned with KLC objectives as is necessary. For Type 1 grants as the first plans were started in 2004, the organisations that were part of the first five-year period will be entering a review and revision year for their plans in 2024, therefore KLC can potentially expect there to be a higher amount applied for by these organisations in 2024, leading to a possible spike in awards adding further to the importance of having robust arrangements in place for assessing VFM. <p><u>Economy</u></p> <ul style="list-style-type: none"> For KLC, this would be assessed by gauging whether organisations are awarded the level of funding required, and not more than is required, for the purpose of the grant concerned. 	13	AA: F2; SPD: B3; SPF: A2; C5; SCS: A1-A4, A6; B1-B4; C1-C2; D1-D3	K: ARC, BA, FI, LSP, SBMG; S: BI, C, L, PSDM; B: AV, F, PS

Q	Response points	Marks	Syllabus content	App St'd
	<ul style="list-style-type: none"> • For example, is EE Community Hub employing the development officer at an appropriate salary level? KLC could ask for salary information for all development officers (or similar posts) supported and make comparisons to identify appropriate levels and ensure that organisations keep to these. <p><u>Efficiency</u></p> <ul style="list-style-type: none"> • For KLC, efficiency measures would focus on whether organisations use funds in a way that maximises outputs and outcomes relative to the grant level? KLC may want to allocate more funding in future to organisations that use it most efficiently. • For example, how many hours of media content does CC Films produce for each £10 000 of funding? <p><u>Effectiveness</u></p> <ul style="list-style-type: none"> • With regard to measuring effectiveness, KLC should assess whether organisations achieve the outcomes that the grant funding is intended to achieve. • For example, if the role of development officer funded at EE Community Hub is to encourage learning and use of Kiliac, KLC may ask for information on the number of people involved in community events, the number of learners on courses, etc. <p><u>Equity</u></p> <ul style="list-style-type: none"> • As KLC is a public body, equity is also a key aspect of measuring VFM and this would focus on whether funds are being allocated in a way that is fair and related to need? • For example, are development officers being funded in locations across Kilia, and no areas being neglected? If additional funds are being directed to particular locations, groups, etc, is there a clear and justifiable reason for this? • KLC may target particular groups (e.g., children, young families) if they feel this is important in relation to KLC's overall objectives. They may, therefore, seek specific information from grant recipients on numbers relating to these specific groups to ensure that funding is being directed appropriately. <p><u>Concerns of grant recipients</u></p> <ul style="list-style-type: none"> • Organisations receiving Type 1 grants have complained that the application process is time consuming and confusing, and the reporting requirements that have to be met before some cash payments are made by KLC are onerous. If this discourages some organisations from applying for grants, it may impact on overall VFM in the use of KLC's funds. 			

Q	Response points	Marks	Syllabus content	App St'd
	<ul style="list-style-type: none"> • It may also mean that the time spent on unsuccessful grant applications by organisations could have been better used in productive activities. • If organisations are to be able to manage their finances effectively, it would be helpful if the grant awarding and reporting processes are easy to apply and reasonably predictable. If organisations are unsure how much grant funding they will receive in a given year, and there is no indication of funding beyond the current year, it makes planning, budgeting, recruitment and other activities more difficult for the organisations. • As some payments are in arrears, this may also create cash flow difficulties for organisations, which is likely to be a particular challenge for many of the smaller organisations that KLC works with. • KLC may consider providing some assurance to organisations of funding beyond one year, particularly as KLC have an indication from the ministry of the funding they can expect for the following two financial years. Any grants to organisations beyond the current year would still need to be 'subject to available funding from government', but would provide more certainty to the organisations in their financial planning. • It is noted that some organisations have received fairly stable funding over a number of years, and KLC could look at giving, for example, three-year funding offers to those organisations, rather than only giving annual grants. Grants would still be subject to review and confirmation each year, and would still be subject to satisfactory performance and reporting. • Multi-year grants would enable organisations like CC Films to look at lengthy projects that require expenditure over more than one year, whereas at present they may decide not to engage in that kind of project. There may also be some economies of scale to be achieved if expenditure can be planned over more than one year. • Some of the grants are provided to support the employment of personnel by the recipient organisations; the organisations are likely to find it more straightforward to recruit and retain the staff concerned if they can offer some certainty of funding for the post beyond a single year. • Relatedly, as there is likely to be significant administration cost tied up with making and assessing bids for annual grants, there is a case for analysing whether some kind of top-down formula-based grant awarding process could be introduced to replace at least part of the bid- 			

Q	Response points	Marks	Syllabus content	App St'd
	<p>based system. This could reduce administrative costs for both KLC and funded organisations and increase year to year certainty for recipients.</p> <ul style="list-style-type: none"> • It may be worth KLC exploring the scope to streamline the grant processes for organisations that have a proven track record in their usage of previous grants awarded by KLC. For example, it may not be necessary to have an interim reporting stage for such organisations and/or to release a higher proportion of the grant amount upfront. • Although the arrangements may seem onerous, KLC have a duty to ensure that effective controls are in place to ensure VFM in the distribution of public monies. While there may be scope to improve the cost-effectiveness of the grants processes, it may be that the concerns could at least in part be resolved by more effective communications between KLC and the organisations seeking grants. • Although these organisations have to provide an interim and final report, it's not clear what communication takes place in the other direction. As KLC, to a significant extent, relies on other organisations to help achieve its overall objectives, it is important that it communicates regularly and effectively, so that it is fully informed on the opportunities in relation to the allocation of grant funding to various organisations to most effectively achieve its strategic objectives. • Some of the funded organisations are large and are likely to be more significant and influential across Linguania – e.g., the university, film company, major festival organiser. KLC may need a different communications strategy with those organisations, compared with small community-based organisations. This might involve more direct, personal contact (e.g., meetings between CEOs or Chairs of organisations), rather than through general communication (website, social media, etc). 			

Question 2 (35 marks)

Q	Response points	Marks	Syllabus content	App St'd
2(i)	<p><i>Assess the extent to which a move from cash-basis to accruals based financial reporting might be of benefit to KLC.</i></p> <p>1 mark per developed point to a maximum of 8, with a maximum of 5 for advantages of cash basis and 5 for advantages of accruals, and 1 mark is reserved for a well-argued overall assessment for KLC.</p> <p><u>Advantages of cash basis financial reporting</u></p> <ul style="list-style-type: none"> • Objective basis: items are recognised when the cash transaction takes place, so this does not usually require judgement or estimation. • Easily understood: Financial statements tend to be quite simple, consisting largely of cash receipts, payments and balances, which are readily understood, and more complex accounting terminology (e.g., provisions, impairments, and other adjustments) is not required. • Simple and inexpensive to operate: Relative to accruals accounting, cash accounting requires fewer judgements and less data, so it can be completed by fewer staff and in less time. KLC is a small organisation with few staff, and a simple system of financial reporting may be attractive. • Cash is often the key focus of control in the public sector. Government budgets are often based on cash, and so having financial statements on the same basis may be attractive as it is easier to see how budgets and financial statements work together. • Cash basis IPSAS are available as a reliable framework for financial statements. The standard provides an internationally accepted basis for preparing and presenting financial statements, and allows for comparison between organisations using this standard. • KLC is used to operating on this basis, and systems, procedures, staff skills are all geared towards it already. <p><u>Advantages of accrual accounting compared to cash basis</u></p> <ul style="list-style-type: none"> • Better accountability: as assets are recorded and included in financial statements, managers are more accountable for the use of these assets. • Clearer information on the actual cost of services: inclusion of charges for depreciation, impairment, 	8	FA: C3; CFR: A4; PSFR: A2; SCS: A1-A4, A6; B1-B4; C1-C2; D1-D3	K: ARC, BA, FI, LSP, SBMG; S: BI, C, L, PSDM; B: AV, F, PS

Q	Response points	Marks	Syllabus content	App St'd
	<p>write-offs, etc provide a better picture of the actual cost of services.</p> <ul style="list-style-type: none"> ○ However, there is not much evidence that these changes would be significant for KLC as they have few major non-current assets. • Less opportunity for manipulating results: e.g., by accelerating/delaying cash payments, which is a practice which provides misleading information to users of financial statements. <ul style="list-style-type: none"> ○ There is evidence that cash accounting is actively used by KLC as a way of manipulating results in relation to budget management (i.e., by buying unnecessary inventory at year end to avoid annual budget underspend). • There is a full set of accrual-based financial reporting standards available, providing a reliable framework. • External audit has included negative comments on KLC's financial management, and having improved financial reporting systems may help to improve the situation. • Better management of assets: this may be of limited relevance to KLC in terms of value of assets, amount of depreciation, etc. However, the discipline of creating and maintaining an asset register may be of practical benefit with regard to IT assets. • Clear picture of organisation liabilities: Grants to external organisations are a significant part of KLC finances, and it may be helpful to have information at the year-end about grants awarded to organisations but not yet paid in cash. • Accruals statements usually also include a cash flow statement, and so provide information on organisational cash flows. Cash is a key resource, so it is important that such information to assist cash planning and cash management is available. <p><u>Overall comparison</u></p> <ul style="list-style-type: none"> • Despite it being best accounting and financial reporting practice, as a small organisation with limited current and non-current assets, it is not clear that KLC would gain that much in the way of additional useful information from accruals-based accounting and financial statements. 			
2(ii)	<p><i>Assess the implications for KLC of the Linguania government's guidance for organisations considering applying to join the pilot project for implementing accruals-based financial reporting, and determine the steps that would need to be actioned for KLC to be able to submit a viable application.</i></p>		BCM: A1; CFR: A4, B1, B2; CGL: H2	K: ARC, BA, FI, LSP, SBMG; S: BI, C, L,

Q	Response points	Marks	Syllabus content	App St'd
	<p>1 mark per developed point to a maximum of 12 marks, with a minimum of 2 marks reserved for points related to each section of the guidance document.</p> <p><u>A pilot project management structure will need to be in place by 31 December 2022.</u></p> <ul style="list-style-type: none"> The project sponsor, and associated reporting arrangements, will need to be determined. This needs to be at a reasonably high level, with appropriate authority to make decisions and commit spending where required. This can be a single individual, or a project board. As the Audit Committee is closely related to the work on financial reporting, it may be appropriate for it to also act as project sponsor. The project team would need to be identified. It would need to have an appropriate mix of skills and represent relevant groups within KLC. It would need to carry out various project tasks and deliver project outcomes, under the management of a project manager. The project team would require finance expertise as well as IT specialists (as finance systems would need to be developed), and other professional representatives. A project manager would need to be appointed, who will be responsible for managing the project team and achieving the stakeholders' objectives. Also, a project accountant, responsible for managing and reporting on the project budget, should be appointed, perhaps the HoFGS or one of his team. A key consideration for KLC is whether additional costs will be incurred in being a pilot organisation, and whether this can be funded by government through additional grant. If there is no additional funding, it might not be feasible for KLC to proceed to apply for pilot status as it may not have the staff and leadership capacity to fulfil these project roles. There should be a clear business case for the pilot before proceeding. <p><u>An opening Statement of Financial Position needs to be prepared as at 1 January 2023.</u></p> <ul style="list-style-type: none"> Accruals-based statements require an opening statement of financial position so that comparative information can be included in the financial statements, and so that items that need to be adjusted in order to determine the year-end balance can be properly accounted for; e.g., there is a need to have opening balance for non-current assets so that depreciation can be calculated for the year and the new net book value can be determined at the year end. 	12	SPF: B1; SCS: A1-A4, A6; B1-B4; C1-C2; D1-D3	PSDM; B: AV, F

Q	Response points	Marks	Syllabus content	App St'd
	<ul style="list-style-type: none"> • This is a challenging activity for an organisation that has not prepared accruals financial statements before, especially where finance staff resources are limited. In the case of KLC, it may require external assistance in putting the information together for the first statement of financial position, which is likely to have cost implications. • It is likely to also require some changes to financial procedures and systems in order to gather and retain the relevant information (e.g., creating an asset register, valuing inventory, classifying liabilities, calculating receivables and payables). <p><u>Accounting policies should be developed.</u></p> <ul style="list-style-type: none"> • KLC need to make arrangements for setting up and approving a set of accounting policies, as the current ones will be relevant for cash accounting and most will not be applicable in the accruals accounting context. • This will need to be planned into the overall project timetable, and the policies will need to be in place in advance of the opening statement of financial position being created. • There is therefore very limited time available (2-3 months), and it is not clear who at KLC would have both the time and the relevant expertise to carry out this work. The HoFGS would be the obvious person to lead this activity, but he is not able to keep up with his current workload. • Arrangements for formally approving the accounting policies need to be agreed, and the Audit Committee may have a role here, but the timescale may make it difficult to include this in their work schedule before the end of 2022 and it should be checked that they also have the required expertise. • Some aspects of current policies may still be applicable under accruals-based financial reporting standards. For example, the presentation and breakdown of revenue may be the same as before. However, the figures to be shown against these revenue headings may be different as a result of applying accruals principles and the requirements of relevant financial reporting standards. • KLC will not need to have policies in relation to every standard, as some will not be relevant. For example, KLC does not own any property assets, so it is unlikely that it will need to have policies in relation to Property, Plant and Equipment, or in related areas such as impairment, borrowing costs, etc. 			

Q	Response points	Marks	Syllabus content	App St'd
	<ul style="list-style-type: none"> • Accruals-based financial reporting standards that need to be applied at KLC may involve use of estimates in the application of a policy. For example, application of the standard on Provisions, Contingent Liabilities and Contingent Assets may require the estimate of damages to be paid to a third party. Procedures for making estimates will need to be set up within KLC to ensure that these are in place and updated for each set of financial statements. <p><u>Training will be required for finance staff and other key stakeholders.</u></p> <ul style="list-style-type: none"> • Staff that have been used to cash accounting will need to be trained on both the content of accruals-based financial reporting standards and the activities involved in applying accruals accounting. • As systems and procedures will need to be changed to be applicable in an accrual accounting context, training will also be required for staff who operate these systems. • Training would also be required at management and Board level in relation to the use of accruals financial statements, and overseeing financial management in the new context. • Time will be required to do a training needs analysis, set up a training programme, develop suitable training resources (or buy them in) and set up a programme of training and development events. • There will be cost implications from this, and external support may be required for some/all elements, but it is difficult to anticipate the scale of this until the training needs analysis is completed and options developed. <p><u>Risk identification and management during the pilot project period needs to be considered.</u></p> <ul style="list-style-type: none"> ○ KLC would need to undertake a thorough risk assessment before deciding whether to apply for the pilot and include that assessment, together with the plans for mitigating identified risks, in the application. ○ Given existing capacity constraints, recent criticisms by external audit regarding the effectiveness of their risk management practices, and other unavoidable priorities facing it (in particular the change management project), it may be unwise to take this on at this stage. ○ However, for the application the kinds of risks that may be identified are: <ul style="list-style-type: none"> ○ Additional work on implementation of accruals accounting leads to other KLC financial management work being 			

Q	Response points	Marks	Syllabus content	App St'd
	<p>neglected, which is potentially important in the light of the external audit report including criticisms in this area.</p> <ul style="list-style-type: none"> ○ Lack of staff time and expertise may lead to errors or gaps in the accruals-based financial statements, potentially leading to further criticisms from external audit and potential reputational damage. ○ Timescales are very restrictive, particularly to create a project team, set up accounting policies, carry out initial training, and prepare the opening statement of financial position before 1 January 2023. There is a risk that these deadlines are not met, with later slippage on important activities. This could lead to failure to have the 2023 financial statements prepared on time (again, leading to external audit criticism and reputational damage). ○ Staff pressures could be significant, and KLC would be vulnerable to loss of key staff at short notice during this project. As the timetable is already challenging, any further loss of resources could be serious/catastrophic. Staff absence levels are already a concern. ○ KLC has had a history of CEOs only staying in post for a short period, which can be disruptive. Adding the pilot to the Accountable Person's responsibilities may not be conducive to helping to retain the current CEO for a reasonable period. Also, if the CEO did leave, this could cause further disruption and difficulty in implementing the pilot successfully. ○ Being part of the pilot may be perceived as shifting resources away from higher priority activities in relation to KLC's objectives and attract criticism from stakeholders. <ul style="list-style-type: none"> • Mitigation would be needed for each identified risk. Much of this can probably be achieved through use of external support (specialist finance advice, training, etc), if this can be funded from existing resources or by seeking additional funds from government. • KLC needs to ensure it has appropriate risk management expertise, either in-house or acquired from outside. The Audit Committee's role in reviewing risk management arrangements is relevant here. 			
2(iii)	<i>Assess the arguments for and against KLC applying to be part of the accruals-based financial reporting</i>	9	BCM: A1;	K: ARC,

Q	Response points	Marks	Syllabus content	App St'd
	<p><i>pilot in 2023, and provide a reasoned conclusion as to whether it should apply to be part of the pilot.</i></p> <p>1 mark per developed point up to maximum of 9. Up to 5 for each of benefits from being part of the pilot and delaying implementation till 2026, and 1- 2 marks reserved for conclusion.</p> <p><u>Benefits from involvement in the pilot</u></p> <ul style="list-style-type: none"> • The fact that accruals-based statements provide more useful financial information and provide the potential for improved decision making as a result, means that there is a case for KLC to seek to obtain those benefits as soon as possible. • Being part of the pilot could significantly raise KLC's profile of organisation as one that is looking to adopt best practice. • Such a boost to KLC's profile may counter some of the negative publicity/reputational damage which is likely to be associated with the critical external audit report earlier this year. • It provides an opportunity for finance staff to develop additional financial reporting skills and knowledge of accrual accounting – this may be of particular importance given that training and development was the issue that attracted the least positive response in the latest staff survey. • The potential benefits of such an opportunity for staff may also help to offset some of the possible negative impact on them of the change management programme flowing from the external audit report. • It may help to attract more and higher quality applicants for vacancies at KLC, including Board positions, as the organisation may be more likely to be viewed externally as more modern and ambitious. • The government is likely to provide additional support to organisations participating in the pilot which it may not have the capacity to provide to all organisations when they have to do it in 2026, so KLC may have an easier time to do it as part of the pilot. • With accruals-based financial reporting being much more complex, and empirical evidence suggesting that a phased implementation is beneficial, KLC should be able to derive those benefits by taking part in the pilot. • The first accruals-based statements produced next year would not be audited, allowing KLC to 'practice' accruals-based statements and presumably receive feedback from government, without the risk of a poor audit judgement, which is not likely to be the case for organisations not involved in the pilot. 		<p>CFR: A4, B1, B2;</p> <p>CGL: H2</p> <p>SPF: B1;</p> <p>SCS: A1-A4, A6; B1-B4; C1-C2; D1-D3</p>	<p>BA, FI, LSP, SBMG;</p> <p>S: BI, C, L, PSDM;</p> <p>B: AV, F</p>

Q	Response points	Marks	Syllabus content	App St'd
	<ul style="list-style-type: none"> • It provides an opportunity to influence the way that the accruals financial reporting project is implemented in Linguania if KLC is involved from the outset, in particular helping to ensure that the needs of small organisations such as KLC are taken on board. <p><u>Benefits from delaying until accruals based reporting is mandatory</u></p> <ul style="list-style-type: none"> • There is relatively little time to do all the necessary groundwork (e.g., develop systems for gathering and processing data for accruals accounting including asset registers, establish project governance structures, plan and deliver training etc) and to prepare the application for the pilot itself. This would need to be done at a time when KLC management is already under significant pressure to progress a number of issues following the external audit project and deliver a change programme. • KLC may not have the expertise and appropriate knowledge required for the tasks that would need to be urgently completed in order to make a viable application by the deadline of 30 November; e.g., producing the opening statement of financial position and the accounting policies, identifying training needs to create a training strategy and plan, and assessing the risks associated with the pilot. • If not involved in the pilot, it would provide more time for Finance staff to contribute to the change management programme and ensure that the performance of day-to-day finance activities receives due attention and are not compromised. Given the criticisms made by the external auditor, and the evidence that Finance staff resources are particularly stretched and have been for some time, this is potentially a compelling argument. • It might be better to approach the changes required to convert to accruals reporting once KLC governance structures have been improved, additional Board members (with appropriate skills) have been recruited and inducted, etc, with there being little prospect of these issues being resolved in the next few months due to the long lead time for Board appointments. • Further, it may be better to deal with the changes associated with accrual-based financial reporting once the current issues with the Audit Committee have been addressed and internal audit arrangements have been clarified and progressed. • Preparing both accruals and cash-based statements alongside each other will be much more time consuming than just producing one or 			

Q	Response points	Marks	Syllabus content	App St'd
	<p>the other. This is arguably time that KLC finance staff can ill afford with all of the other issues and actions needing to be addressed following the audit report.</p> <ul style="list-style-type: none"> • It would also give the opportunity to learn from the experience of organisations that have taken part in the pilot. • If the benefits of accruals accounting to KLC as a small organisation are likely to be relatively limited, volunteering to take part in the pilot also may not make sense strategically or operationally, given existing priorities. • There are limited finance staff resources in KLC (total 2.5 FTE including HoFGS), as demonstrated, for example, by the backlog of IA reports. A change in the accounting and financial reporting system at this point in time would present significant finance staff challenges. • Staff absence rates have been increasing, and this would also make it difficult to resource the additional work for accruals implementation in the short-term. <p><u>Conclusion</u></p> <ul style="list-style-type: none"> • The scale and potential seriousness of the risks, even with some mitigation, together with the likelihood that there would be relatively little beneficial effect for KLC from accruals-based reporting, probably mean that it is unwise for KLC to apply to take part in the pilot. • Delaying to 2026 allows KLC to plan carefully for the changes, adapt resources accordingly, and also benefit from the experience of those that do take part in the pilot. 			
2(iv)	<p><i>Discuss how the items highlighted by the Head of Finance and General Services in his email of 5 September should be dealt with in KLC's financial accounting and reporting processes when applying accruals-based financial reporting standards.</i></p> <p>1 mark per developed point to a maximum of 6, with a minimum of 2 marks reserved for each of IT assets and inventories.</p> <p><u>IT assets</u></p> <ul style="list-style-type: none"> • The items listed by the HoFGS are unlikely to be difficult to account for in terms of recognition and measurement and their asset values are likely to be short (i.e., 3-5 years in most cases) • An asset register would be appropriate for larger value items (e.g., PCs, laptops), so that these can be monitored and controlled. The register does not need to be complex for such simple, short- 	6	FA: C3; CFR: A4; B1 SCS: A1-A6; B1-B4; C1-C2; D1-D3	B: ARC, BA, FI, LSP, SBMG; S: C, EI, L, PSDM; B: AV, F, PS

Q	Response points	Marks	Syllabus content	App St'd
	<p>lived assets (unlike that which would be required for assets such as property and vehicles).</p> <ul style="list-style-type: none"> • An asset register approach is also important for ensuring the integrity of information in systems (e.g., updating PCs and laptops for security software). • These items would be accounted for as non-current assets and will require accounting policies such as depreciation to be created. However, this is not complex for IT assets as they have a relatively short life – usually around 4 years. • This will also allow the cost of such assets to be spread across their useful life and allow for better planning for areas such as IT asset replacement. • It may not be worth including smaller items in the register (e.g., phones, printers). Potentially, such items could be expensed rather than including them as non-current assets. A de minimis level could be set – e.g., expense below £1 000, capitalise £1 000 or more. This would be set out in the accounting policies. • While the HoFGS seems concerned that there will be lots of individual assets to value, with fewer than 30 FTE staff there cannot be many more assets than this if lower value items are removed, so the task overall should not be too onerous. <p><u>Inventories</u></p> <ul style="list-style-type: none"> • It is important that expenses are matched to the appropriate accounting period, so identifying significant levels of inventory and treating them as a current asset rather than as an expense in the period is an important part of accrual accounting. • However, it is important to focus on material items, so, for instance, small items of office stationery will not be worth including in current assets. • The current approach is potentially distorting the financial performance of KLC if significant annual budget underspends are being avoided by expenditure being brought forward. This needs to be addressed urgently, as it indicates that KLC may not be achieving good financial management because of poor accounting and financial reporting practices. • Manipulation of financial information in order to present a misleading set of results is not appropriate whether the organisation uses cash accounting or accruals accounting. 			