INFORMATION AND FINANCIAL MANAGEMENT

Professional 1
December 2003

MARKING SCHEME

CIPFA

Question 1

This question is about the concepts of success and failure in relation to projects, how projects fail and what can be done to prevent failure. It is set in a specific but fairly generic context of a relatively small public sector/ not-for-profit organisation. The question relates to the Project Management section of the syllabus and is covered in Study Session 13 of the Open Learning Materials.

The question requires a response in the form of a report to the Chief Executive of the Housing Association. It should be correctly addressed and headed and the style and language should be appropriate.

To: Chief Executive
From: AN Accountant

Date: Exam date

Project Management

The report should be sectionalised to reflect the three sections of the question.

1 mark for good presentation (taken from section (a) marks)

(a)   Common causes of project failure may include the following:

- Lack of clear goals and objectives.
- Poor communication with key stakeholders.
- Changing of specifications, goals and objectives.
- Highly complex project with conflicting objectives.
- Poor resourcing of project.
- Poor management of lifecycle (all aspects.)
- Irreconcilable political differences within organisation.
- Lack of technical expertise and capability.
- Inability of team to work together.
- Unrealistic and unachievable expectations in terms of goals and objectives.

1 mark for each cause identified up to a maximum of 5 marks
Other relevant points may be considered and, if appropriate, marks awarded

Students must attempt to relate their answer to the context of a small organisation. Some of the potential causes of failure are more obviously relevant in this context. For example, lack of technical expertise or poor resourcing may be particular problems.

2 marks for a recognition of the correct context and a good attempt at relating causes to the specific scenario
(8)

(b) Action which could be taken to address potential causes of failure:

Students may answer this by suggesting action that could be taken in relation to each of the specific causes which they have listed in part (a). For example, the first issue "lack of clear goals and objectives" can be dealt with by ensuring that decisions are taken on project goals and objectives and ensuring that this is built into a formal decision making process involving the production and consideration of a business case or an alternative form of documentation. Marks should be awarded for relevant points but there may be some overlap or duplication. Care will need to be taken not to award more than one mark for a particular point.

1mark per relevant point subject to a maximum of 5 marks

An alternative approach may involve identifying actions which could address the problem of failure more generically.   For example, there are a number of potential issues which require an improvement in communication.   Similarly there are issues which can be dealt with through improved training of project team members. In this case it may be permissible to award two marks for a well made point.

1 or 2 marks per point subject to a maximum of 5 marks

It is important that any points made are of direct relevance to the question requirements and reflect the context of the question. It is possible that some answers may rely upon material taken from the OLM. For example, the Project Manager Direction Finder diagram may be used but if it simply described as it is in the text and there is no attempt to relate it directly to the question it should only be awarded half marks.

Answers that do not relate specifically to the question requirement and/or context should be subject to a maximum of 2 ½ marks

(5)

(c) Steps to improve staff training and experience.

There are a number of actions which can be taken here. These include:

- External training courses, either specialised or general management training with project management elements.
- Internal training events led by senior management with project management experience to include presentations, seminars and case study/scenario based exercises.
- One to one training and mentoring.
- Post Implementation Review (PIR) leading to learning from experience and also building up an information resource for future projects.

Other points may be made and should be judged on their relevance.

1 mark for each relevant suggestion up to a maximum of 2 marks

(15)

Question 2

This question is about systems development and implementation, the potential problems which can arise, and approaches which can be taken to minimise those problems. It is important that students attempt to relate their answers to the issues raised in the preamble to the question and that they do not simply write down everything they know about systems development. This is particularly the case with sections (b) to (d) of the question.

This is covered in study session 4 and 8.

(a) Briefly outline the main stages of the Systems Development Lifecycle (SDLC – Waterfall model.)

All that is required here is an accurate identification of the key stages in the SDLC with a brief explanation of what each of the stages comprises.

- Initiation aims to establish whether the project is feasible and then prepare to ensure the project is successful.
- Feasibility assessment ensures that the project is a viable proposition by analysing the need for and the impact of the system and considering different alternatives for the acquisition of software.
- Systems analysis aims to define the business requirements of the system by talking to and/or observing end users in order to define what the system will actually do.
- Systems design defines how the system will work in key areas such as user interface, program modules, security and database structure and transactions.
- Systems build describes the creation of software including the writing, building of release versions, constructing and populating the database, and testing by programmers and end users.
- Systems implementation and changeover is the transition from the old system to the new and all the preparation which this entails, including hardware, infrastructure, testing and education and training.
- Review and maintenance occurs after the system has been signed off and involves reviewing the project and recording and acting on problems with the system.

1 mark should be awarded for each stage that is correctly identified and adequately (albeit briefly) described. If students have only mentioned the name of each stage they should be awarded ½ mark per stage
This is subject to a maximum of 7 marks for the section

(b) Choose one stage and explain how and why the problems referred to above could occur at this stage and what could be done to avoid them.

This section should be related to the specific problems outlined in the question scenario ie

1. Lack of user input.
2. Incomplete requirements.
3. Changing requirements.
4. Lack of executive support.

These are not the only problems that organisations may encounter but the question does specify them. Answers that relate to other issues are unlikely to be awarded marks.

Students may choose from any of the stages of the systems lifecycle and therefore there is potential for a wide variation in the answers provided. The ideal framework for an answer would be to choose one of the stages, discuss the problems that could be encountered under each of the four headings provided, and then suggest ways in which these problems could be avoided. If candidates identify a "stage" mistakenly in part (a) and base their answers on this they may still be awarded a mark.

1 mark for each problem (but only where related to the headings provided and taking care not to award marks more than once for the same or similar problems) up to a maximum of 1 mark for each solution related to the identified problems, again up to a maximum of 3. (nb simplistic solutions eg lack of consultation, solution consult, should not be awarded a full mark)
(6)

(c) Explain what is meant by RAD and suggest why this might offer better results than the more traditional approaches to systems development.

RAD (Rapid applications development) is an approach to systems development based upon prototyping and which is aimed at achieving user involvement and faster development of systems compared to traditional methodologies.

1 mark for a satisfactory definition of RAD

There are a number of reasons why RAD might offer better results.

- More direct user involvement.
- Cuts down on development times.
- More responsive to changing business needs.
- Understandable and more popular with users.
- Should minimise design errors.
- Should result in high levels of user satisfaction and therefore a high success rate.
- Relatively cheap process.
- There are potential drawbacks but the question does not ask for them.

1 mark for each relevant suggestion subject to a maximum of 3
(4)

(d) What concerns should the finance manager have in respect of the design and development of finance and accounting systems.

There are three main areas of concern which should be identified and briefly explained:

- Control within financial systems – to ensure that adequate and satisfactory controls are built into the systems.
- Quality and effectiveness of financial information – in relation to the financial accounting and management information requirements of the organisation and its stakeholders.
- Value for money – ensuring that systems are cost effective and affordable.

1 mark for each of these areas of concern.
½ marks to be awarded for incomplete description and explanation of the area
(3)

Marks may be awarded for other valid points
provided they relate specifically to financial systems

(20)

Question 3

This question is concerned with the impact of the debt collection position on the working capital requirements of an organisation and the financial implications of the working capital. It requires that candidates identify the current position with regard to working capital and calculate how that position is likely to change in the light of three possible courses of action which the organisation is contemplating. It then asks for comments on debt collection procedures. This is all covered in the Treasury Management section of the syllabus and in SSs 17 and 20 of the OLM.

(a) Calculation of the change in working capital requirements and financial effects:

Current position

The average collection period for debts is:

$(0.10 \times 30 + 0.22 \times 45 + 0.18 \times 60 + 0.32 \times 75 + 0.10 \times 90 + 0.08 \times 120) = \underline{66.3 \text{ days}}$ *2*

The working capital requirement is:

66.3/365 (proportion of average days of debt to total days in year) $\times$ £50m (debtor receipts for the year) = £9,082,192   *1*

As the WACC is 9% this is costing the organisation.

9% of £9,082,192 = £817,397   *1*

(4)

(b) Effects of discount for early settlement of debt:

Proportion of receipts eligible for discount

10% + (95% of 22%) + (75% of 18%) + (70% of 32%) = 66.8%

66.8% of 50m = £33,400,000
2% discount will cost 2% of 33,400,000 = £668,000   *1*

The revised average collection period for debts would be:

$(0.668 \times 30 + 0.011 \times 45 + 0.045 \times 60 + 0.096 \times 75 + 0.10 \times 90 + 0.08 \times 120) = \underline{49.035 \text{ days}}$ *1*

The working capital requirement would be:

49.035/365 (proportion of average days of debt to total days in year) $\times$ £50m (debtor receipts for the year) = £6,717,123   *1*

The cost of this at per annum 9% would be

9% of £6,717,123 = £604,541   *1*

Reduction in cost = £212,857   *1*

Net cost = 668,000 – 212,857 = 455,143   *1*

Use of a debt collection agency

Revised position

The average collection period for debts would be 35 days.

The working capital requirement would be:

35/365 (proportion of average days of debt to total days in year) ✕ £50m (debtor receipts for the year) = £4,794,521   *1*

The cost of this at per annum 9% would be:

9% of £4,794,521 = £431,507   *1*

This is a saving of £817,397 – 431,507 = 385,890   *1*

However, there a charge for the use of the agency. This is 0.75% of debtor receipts = £375,000, giving a net saving of £10,890   *1*

Comment on options.   *1*

         (11)

(c) Debt collection procedures

There are four main areas which would need to reviewed in relation to debt collection:

- Raising the debt and sending out the bill – this will involve issues of accuracy and speed.
- Reviewing the debt until payment is made – information systems to monitor debts.
- Sending out reminders where payment is not received – having efficient and effective follow up procedures up to and including legal arrangements for recovery.
- Accounting quickly and accurately for payments received.

1 mark for points relating to each of the above areas up to a maximum of 3

Credit vetting could be important for this type of organisation. A decision would have to be made whether to rely upon collection of information in-house or to rely upon an external source (such as a credit rating agency). There are a number of sources of information available. These include information from organisation's own sales ledger, bankers' references etc, trade references, and credit bureaux reports.

1 mark for each relevant point up to a maximum of 2 marks
         (5)

(d) Late Payment of Commercial Debts (Interest) Act 1998:

Candidates will need to demonstrate that they understand the relevant provisions of this Act and how it will apply to Middleway in this situation.

The main points are that:
- All organisations now qualify for the full provisions of the Act.
- Interest can be charged for each day's outstanding debt after 30 days (as provided for in the Act and also in the question.)
- Interest is charged at base rate plus 8% per annum.

1 mark for each of the above points, and for any other valid point up to a maximum of 3

Reasons for using the Act could include:

- Incentive for debtors to pay within 30 days.
- Compensation for late payers in the form of interest charged.

1 mark for either of the above points

Against this

- Administrative complications of setting up system for charging interest.
- Potential effects on debtors/ customers.

1 mark for either of the above points
Alternative points which are relevant to the question requirement should be awarded marks
(5)

(25)

Question 4

This question is primarily concerned with performance measurement as an integral part of performance management. It deals with the specific circumstances of the public sector as compared with the private sector, looking at the reasons for measuring performance, benchmarking as an important tool and finally it relates performance management to control systems theory. This is largely covered in the Performance Measurement section of the syllabus (and OLM SS10) with the systems theory being contained in the Control section (SS1).

(a)   Main differences between the public and private sectors

- Private sector organisations tend to be for-profit and their aims and objectives are more narrowly focused on profit and/or turnover.

- Public sector organisations may have a much wider range of more complex objectives.

- Private sector outputs may be easier to define and to quantify and they may deal in more standardised units of provision.

- Public sector organisations may be providers of services which have less tangible and standard outputs and outcomes.

- Greater possibility of information sharing in the public sector as the environment is less competitive.

1 mark for each point up to a maximum of 4 marks

(b)   Why measure performance?

The question asks for SIX reasons which could come from the following list:

- Need to measure performance imposed externally (for example, local authority, NHS and Executive Agency's performance targets.)
- Assist in the formulation and implementation of policy.
- Assist in the planning of service provision.
- Assist in the development and monitoring of business plans.
- Monitor the implementation of planned change.
- Monitor standards of service and organisational effectiveness.
- Monitor the extent to which resources are being used effectively.
- Demonstrate internal and/ or external accountability.

This list is taken from the OLM and is based upon *Measuring Up, An Introduction to Theories and Concepts of Performance Measurement in the Public Services (CIPFA 1998).*

Alternatively candidates may answer this by outlining the potential benefits of performance measurement and may quote from an alternative list of benefits provided in the materials.

- Enhancing internal and external accountability.
- Clarifying responsibilities and providing evidence of success or failure.
- Serving to balance the internal and external focus required of an organisation.
- Encouraging proactive management covering the business cycle of planning, monitoring, controlling and reviewing.
- Providing information useful in post implementation appraisal exercises.
- Identifying areas of potential service improvements, cost savings etc.
- Informing the organisation how not only results, but the process leading to those results, could be improved.
- Serving to drive organisational change.
- Focusing attention upon the critical success factors.
- Serving to link financial and non-financial data and thereby providing a balanced picture of the organisation.
- Providing information relevant to the development and implementation of policies and services.
- Informing the debate about future objectives and priorities, for these should be influenced not only by external needs but also by the internal capacity to perform.
- Helping users of services to make informed choices.
- Providing the basis for staff appraisal and reward system.
- Facilitating communication throughout the organisation.

1 mark should be awarded for each valid point
It is also important that comment is made upon
whether the reasons are internal or external to the organisation
There is a maximum of 6 marks but this should only be 4 where
there is no mention of the internal/ external issue
Other valid points may be awarded marks

(c) Benchmarking

This section requires a definition of benchmarking and an outline of the main advantages and disadvantages.

Definition:

"The process of searching for, and achieving, excellent levels of performance. This is achieved through a systematic comparison of performance and processes in different organisations, or between different parts of a single organisation, to learn how to do things better. Its purpose is to continuously improve levels of performance by identifying where changes can be made… in what is done (and) the way in which things are done" CIPFA (1996, 1) as quoted in the OLM (SS10).

A benchmark is the measure which is used to compare performance which can be used to indicate where a review of processes might prove to be worthwhile. This involves using the benchmark information to seek continuous improvement.

1 mark for a correct definition

Advantages can include

- Can identify areas of good or bad performance when compared against other organisations.
- Can encourage sharing of good practice throughout a sector and derive benefits from co-operative working.
- Process benchmarking allows for in-depth comparisons and identification of good practice.

Disadvantages could include

- Over reliance on figures could lead to superficial and incorrect conclusions.
- May not be making relevant comparisons.
- Good practice in benchmarking is not as easy as it may appear and will require a significant investment of time and resources.

1 mark for each point made up to maximum of 4 marks. Answers should include advantages and disadvantages. There may be other relevant points and they should be rewarded.

(5)

(d) Application of control system theory to performance management.

The most obvious approach here is to view performance management as a negative feedback control system. This would involve identifying the elements of such a system and relating those to elements of performance management. Candidates may prefer to show this diagrammatically. The elements of the system are:

- Inputs
- Process
- Outputs
- Standard
- Comparator
- Effector

The most important from a control perspective are:

- Outputs – this must be measurable, hence the need for performance measurement.
- Standard – this will be a performance standard based upon performance plans (and may be expressed in the form of a target.)
- Comparator – is the ability to monitor actual measured performance against the planned level (target.)
- Effector – is the means by which performance can be changed to bring deviations back into line with the plan.

1 mark for each of the above (but control elements must be related to performance management or no marks should be awarded)

(4)

An extra mark is available for further explanation or additional points. For example, to comment that the control loop may be relatively open, that there may be an element of double loop control (through the review of performance standards) or that in the event of above target performance the system may become a positive feedback system. Some candidates may make reference to feedforward and should be rewarded according to the quality and relevance of their answers

(1)

Where a diagram is used the same basic guidance as outlined above should be applied

(5)

(20)

Question 5

This question is about the development of a framework for assessing the design of financial information and then going on to apply that framework. It also explores one of the issues surrounding financial information design, identifying the main users and recognising their interests in using the information. The question is covered by the Financial Information Management section of the syllabus and SS 8 within the OLM.

The question requires a report to be written for the consideration of a working group which is holding its first meeting.

To :   Working Group on Financial Information Design
From: An Accountant

Date: Exam date

Design of Financial Information

The report should be sectionalised to reflect the three sections of the question.

1 mark for good presentation (taken from section (c) marks)

(a)   A framework for assessing financial information:

This section should establish a framework of characteristics against which the design of financial information can be assessed. The OLM refers to the CIPFA publication.

Achieving Excellence in Financial management (1998, 18) and identifies:

- Relevance – to the purpose for which it has been produced and the management and decision function which needs to be informed.

- Suitability – to the audience, which means being user friendly and recognising the background and level of understanding of the user.

- Affordability – taking cost into account to ensure that information has a positive cost/ benefit ratio.

- Timeliness – ensuring that the information is produced in time to be of value in the appropriate decision making process.

- Focus on business objectives – the information should take into account the wider business objectives of the organisation and should reflect them.

1 mark for each characteristic identified plus 1 mark for an explanation of the relevance of each of them, with a maximum of 10 marks
(10)

Some candidates may identify alternative characteristics and should be given marks where these alternatives are relevant and valid. They may, for example, use different terminology. They may refer to the tables on pages 19/20 of the textbook (Bocij, 2002) Where these characteristics are used marks should only be given if they are appropriate to the context of the question ie if they could be usefully be used in a framework for assessing the design of financial information

(b)   Application of framework to budgetary control.

This section requires that the framework be applied specifically to budgetary control information, as an example of control information.

- Relevance – to the budget holder, providing the correct level of detail and covering the budget heads under the budget holder's control. It should also be accurate and up to date and provide comparative profiled information on budget performance.

- Suitability – the format should be appropriate to the needs of a non-financial manager.

- Affordability – the system should be cost effective.

- Timeliness – reports should be available regularly throughout the budget period and as soon as possible (compatible with cost effectiveness) after the end of each reporting period.

- Focus on business objectives – budget performance should be related to operational performance through the use of activity information and performance measures and indicators.

1 mark for each characteristic but answers must be related to budgetary control and candidates must demonstrate actual use of the framework, subject to a maximum of 5 marks

(c)   Main internal users of financial information and their interests.

The final section of this question asks for the main internal users of financial information to be identified and for some discussion of their conflicting interests and how they might be reconciled.

Main internal users of financial information:

- Departmental management.
- Departmental budget holders.
- Committees/ boards/ working groups/ project teams etc.
- Finance staff.
- Staff in other departments.

There are other possibilities and some of the above may be described in different ways. ½ mark for each relevant user group up to a maximum of 1 mark

Interests may conflict due to the different uses to which the information is put. This can lead to different requirements in terms of level of detail required, timeliness, reporting periods, formats and styles of reporting. Problems may be resolved through an understanding of the needs of users and the ways in which information is to be used. There also needs to be some understanding of the constraints and conditions under which users will be operating. Systems should be flexible to the needs of a variety of users eg allowing for aggregation of information but also for that information to be drilled down where more detail may be required.

For a good response which discusses, with examples, the issues raised in the question (2)
(5)

(20)