

INFORMATION AND FINANCIAL MANAGEMENT

Professional 1 examination 6 December 2001

From 2.00 pm to 5.00 pm,
plus ten minutes reading time from 1.50 pm to 2.00 pm

Instructions to candidates

*Answer **all five** questions. The marks available for each question are shown in italics in the right-hand margin.*

All workings must be shown. Where calculations are required using formulae, calculators may be used but steps in the working must be shown. Calculations with no evidence of this (for example, using the scientific functions of calculators) will receive no credit. Programmable calculators are not permitted in the examination room.

Formula sheets, statistical tables, graph paper and cash analysis paper are available from the invigilator, where applicable.



1

- **Requirement for question 1**

- (a) Identify **four** risks encountered by public service organisations, which may have an affect on the ability of their assets to function effectively. Using the framework of: risk identification, risk analysis and risk quantification, describe how a public service organisation might assess its risk profile. Illustrate your answer with examples where relevant. 8
- (b) Having identified, analysed, and quantified risks, how should the public service organisation manage the risks? Identify and briefly describe the issues that might arise in making the risk management decision. 3
- (c) Why should a public service organisation maintain a record of insurance claims? Identify why the control of potential losses is a particularly significant management task for public service organisations, compared to their commercial counterparts. 3
- (d) What is meant by the concept of ‘self-insurance’? Identify **three** benefits and **three** potential problems with an organisation adopting a self-insurance approach? 3
- (e) Outline the standards of professional practice that are expected of CIPFA members who are responsible for the management and execution of the treasury function within an organisation (either private or public service sector). Your answer should make specific reference to:
- The importance of the treasury function
 - Treasury analysis methods
 - Treasury performance and accounting
 - Treasury responsibilities 8

(25)

2

Financial managers employed within public service organisations will typically be involved in managing four types of project: capital projects, contracts, Best Value and Private Finance Initiative.

- **Requirement for question 2**

- (a) Briefly describe the key features of the following types of project found within public service organisations, illustrating each with an example:
 - (i) capital projects 2
 - (ii) contracts 3
 - (iii) Best Value 4
 - (b) Define and describe what is meant by the Private Finance Initiative (PFI). Identify and discuss the approaches that can be taken to the project management issues arising out of PFI. 11
- (20)

3

- (a) You have recently been employed as the Administrative and Finance Manager of Harmer Hill Housing Association. Harmer Hill Housing Association specialises in providing sheltered housing for elderly residents. The Chief Executive of the Association has recently returned from a conference entitled “Residential Housing Service Quality 2001”. Although she enjoyed the event, she is unsure of how to apply some of the concepts mentioned at the event. In particular, she is unsure of the relevance of quality management to housing associations. Aware of your CIPFA studies, she has asked you for clarification on some matters.

- **Requirement for question 3(a)**

Write a memorandum to the Chief Executive. Your note should cover the following points:

- Definitions of quality and differing perceptions of what constitutes quality
- The problems inherent in applying private sector quality approaches to public sector settings
- Quality assurance processes and standards
- Total quality management

15

- (b) Harmer Hill Housing Association owes a local builder, Beale Enterprises, £125,000. Beale Enterprises invoiced the Association 90 days ago, the terms of credit were 30 days and the whole amount of the debt is still outstanding.

- **Requirement for question 3(b)**

- (i) What legislation provides Beale Enterprises with a statutory remedy to claim interest on this debt? Applying this legislation, calculate the amount of interest claimable. Assume the prevailing bank base rate is 6%. 3
- (ii) Identify and briefly describe **four** activities an organisation can take to improve its debtor position. 2

(20)

4

- (a) Four managers currently receive daily information of inventory levels for 8,000 products. The report covers product movements during the previous day and a projection of movements over the next seven days. The report is one page long for each product, it is produced daily and sent to each of the managers. One of the managers admits she never reads the report. She says, in confidence, “there is simply too much information to take in. All I need is data on products that have fallen below their re-order level or those that are likely to do so in the next week”.

- **Requirement for question 4(a)**

- (i) Identify and describe the type of report the four managers need. 2
- (ii) Describe the systems concept this type of report relates to. 3

- (b) Atcham NHS Trust is re-organising its personnel systems. As part of this it intends to purchase a new integrated personnel system which will run on the mainframe of the Trust. This should deliver costs savings and allow the Trust more control over its personnel systems. The new package has four modules:

- Employee profile
- Payroll
- Recruitment
- Training and development database

These systems already currently exist in various forms. A bureau runs payroll; employee records are recorded using a paper-based system. Recruitment is a manual system supported by word-processed data and spreadsheets. The training and development database doesn't exist in one form, although individual managers keep records of staff attending courses. The employee profile information, including sickness records and staff appraisals, is again held in a paper-based format.

The payroll contract with the bureau will terminate in six months time. The contract is renewable for one-year in advance.

- **Requirement for question 4(b)**

Briefly explain the following two implementation methods and their application to the new Personnel system:

- Parallel running
- Immediate cut-off (or direct changeover/conversion)

Which of the two methods is most appropriate in this case and why? 10

- (c) An internal auditor has recently been made redundant from a local authority in response to a need for efficiency gains. During the auditor's employment, he developed a small computer audit program during his lunch hour to help him with his work at the Council. He is now actively marketing the program to other local authorities.

• **Requirement for question 4(c)**

- (i) What are the legal and ethical issues involved in this case? 3
- (ii) Who owns the program? Justify your answer. 2

(20)

5 Wemshire Constabulary is reviewing the provision of financial information to managers to ensure it achieves value for money. At present, the Constabulary maintains a large central finance department and allocates the cost of the department to divisions on the basis of the size of their overall budget. However, it is considering seconding staff to divisions to provide better financial support on the ground.

• **Requirement for question 5**

(a) Compare and contrast the benefits and problems of the police force adopting a centralised finance function, to one adopting a decentralised finance function. 6

(b) Public service organisations (such as police forces) traditionally regard the finance function as an overhead and charge out the cost of the service on an often arbitrary basis.

What options are available for such an organisation to improve the way it recovers the costs of financial support? How effective are each of these options? 6

(c) The Constabulary is devising a number of performance indicators for each division. Identify **six** characteristics of effective performance indicators. 3

(15)