# Acca management exam

Business, Management

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INTRODUCTION TO THE PAPER CHAPTER 1: CHAPTER 2: CHAPTER 3: CHAPTER 4: CHAPTER 5: CHAPTER 6: CHAPTER 7: CHAPTER 8: CHAPTER 9: CORPORATE GOVERNANCE – AN INTRODUCTION CORPORATE GOVERNANCE – MORE DETAILED AREAS AGENCY THEORY AND TRANSACTION COST THEORY GOVERNANCE IN DIFFERENT COUNTRIES AND ORGANISATIONS RISK MANAGEMENT INTERNAL CONTROL SYSTEMS STAKEHOLDER THEORY AND CSR BUSINESS ETHICS THE PROFESSIONAL ACCOUNTANT 5 7 21 29 35 49 61 69 81 93 www. studyinteractive. org 3 4 www. studyinteractive. org Introduction to the paper www. studyinteractive. org IN T R O D U C T I O N T O T H E P A P E R AIM OF THE PAPER The aim of the paper is to apply relevant knowledge, skills and exercise professional judgement in carrying out the role of the accountant relating to governance, internal control, compliance and the management of risk within an organisation – in the context of an overall ethical framework. OUTLINE OF THE SYLLABUS 1. 2. 3. 4. Governance andresponsibility. Internal control and review. Identifying, assessing and controlling risk. Professional values and ethics FORMAT OF THE EXAM PAPER

The syllabus is assessed by a three hour paper-based examination. The examination consists of: ? ? one 50 mark compulsorycase studytwo from

three 25 marks scenarios. FAQs How do I get the most from my course? ? Try and be seated by the start of the lecture. This will ensure we have the maximum lecture time. Your course notes will be divided into chapters, please make sure you bring the relevant chapters with you to class. Manage your time effectively. If you have a busy work schedule use your study planner to catch up. Do not allow yourself to fall behind.

Should you have any difficulties or questions please do not hesitate to contact me either before the lecture or during the break as most students are in a desperate hurry to leave at the end of the lecture. Alternatively, you can always email me or phone me through our helpline. In the event of an emergency you can come for the same lecture on a corresponding part-time course as all the courses run parallel to each other. It is crucially important that you attend the full course of lectures. Try to read the business section of a decent newspaper at least once a week to get an idea of what is going on in he business world and the difficulties faced by organisations. ? ? ? ? 6 www. studyinteractive. org Chapter 1 Corporate governance – an introduction EXAM STYLE QUESTIONS ? ? ? ? ? ? ? Explain the problems companies have suffered, that have resulted in the need for corporate governance regulations. Explain the agency problem and agency cost. Who sets corporate governance regulations? What are the key concepts that underpin corporate governance? For a given situation, identify the key concepts that are / are not being followed. What are the main areas that corporate governance covers?

Explain the business argument for and against corporate governance. www. studyinteractive. org 7 C H A P T E R 1 – C O R P O R A T E G O V E R N A N C E : A N IN T R O D U C T IO N CHAPTER CONTENTS A BRIEF HISTORY OF UK COMPANIES ---------------------------------- 9 THE SOUTH SEA BUBBLE THE 20 CENTURY MORE RECENT PROBLEMS TH 9 10 11 WHAT IS CORPORATE GOVERNANCE? -------------------------------- 13 THE AGENCY PROBLEM 13 CORPORATE GOVERNANCE RULES / GUIDANCE---------------------- 14 WHO SETS THE RULES? UNDERLYING CONCEPTS BEHIND CORPORATE GOVERNANCE 14 14

THE MAIN AREAS OF CORPORATE GOVERNANCE -------------------- 16 DIRECTORS CHAIRMAN AND CHIEF EXECUTIVE OFFICER (CEO) BOARD BALANCE APPOINTMENTS TO THE BOARD ANNUAL PERFORMANCE REVIEW RE-ELECTION OF BOARD MEMBERS REMUNERATION OF DIRECTORS REMUNERATION COMMITTEE FINANCIAL REPORTING INTERNAL CONTROL AUDIT COMMITTEE AND AUDIT RELATIONS WITH SHAREHOLDERS CONSTRUCTIVE USE OF AGM INSTITUTIONAL SHAREHOLDERS 16 16 16 17 17 17 17 17 18 18 18 18 18 18 THE BUSINESS CASE FOR CORPORATE GOVERNANCE --------------- 19 FOR AGAINST CONCLUSION 19 19 19 8 www. tudyinteractive. org C H A P T E R 1 – C O R P O R A T E G O V E R N A N C E : A N IN T R O D U C T IO N A BRIEF HISTORY OF UK COMPANIES The South Sea Bubble ? In 1711, the South Sea Company was granted exclusive trading rights in the South Seas (South American colonies) in return for helping tofinanceGovernment borrowing. To help grow their operations, they looked for investors and issued shares. Things seemed to be going well – more and

more investors putmoneyin. There were expensive London offices – it all looked very successful.

Management lied about how good it was – with no information available other than what management told them, investors did not know the truth. In 1718, Britain and Spain went to war … and the ability to trade in the South Seas was now zero. A shame, as the company had only sent its first trading ship in 1717. But investors did not know this and kept buying shares, largely because management (and some politicians who owned shares) kept making positive comments about the company ….. ….. whilst management secretly sold their own shares.

Once the truth got out, there was a crash – the “ South Sea Bubble” had burst. Many had bought shares with loans and could not repay them, leading to personal bankruptcies (and some banks also went bust as they could not collect the loans). ? ? ? ? ? ? ? ? What can we learn from this? ? ? ? ? ? ? ? Investors need to be able to trust managers / directors. Directors have all the information. Investors need to be provided with complete, accurate information. But if the directors provide this information, they might lie! Directors may act to make themselves wealthy, not the investors.

If management are selling shares, investors should be told – and be able to ask why! If one company collapses, it often leads to others collapsing as well At the time, the UK Government reaction to this was the first “ corporate governance” … THEY BANNED LIMITED COMPANIES. ISSUING SHARES WAS ILLEGAL!!! Eventually, this situation had to change. In the 19th Century, the growth of railways that needed investment, and the existence of limited

companies in the USA, meant that the UK had little choice but to follow, and allow limited companies to exist again. www. studyinteractive. rg 9 C H A P T E R 1 – C O R P O R A T E G O V E R N A N C E : A N IN T R O D U C T IO N The 20th century In 1932, two economists Bearle and Means made some observations about American companies: ? Shareholders were more likely to sell their shares than speak out if they thought directors were not running the company very well. This could result in poor quality management never losing their jobs. Some American companies were getting very large, and with so many shareholders there was a growing gap between those who owned the companies, and those who controlled them. By the 1950s, companies were growing ever larger – what we now know as " globalisation" … the existence of large multinational companies with influence around the world was well under way. The 1970s – 1990s saw problems starting to become common. By the late 1980s, there were some famous corporate collapses – some due to poor management, but many due to fraud: Polly Peck ? ? ? ? ? Rapid growth in the 1980s took this East End company to the FTSE 100. Run by Asil Nadir (who escaped to Northern Cyprus, but returned to UK in 2010 and will stand trial).

Donated money to the Conservative Party (who were in power). In 1990, ? 700m found to be missing. Company placed into administration. Maxwell ? ? ? ? ? Publishing and Newspaper empire (Daily Mirror). Seemed very successful. Run by Robert Maxwell. Donated money to Labour Party. In 1990 / 1991 company debts grew, and Maxwell used Pension Fund money to keep the companies from going bust. Barings ? ? ? ? In early 1990s, traditional UK bank Barings expanded into " new" products – options and

futures trading. Nick Leeson was given the new Singapore branch to manage.

He had total control – he was the star trader, but also controlled the recording of these trades … no segregation of duties! When mistakes were made, he was able to hide them in a suspense account – his 88888 account. 10 www. studyinteractive. org C H A P T E R 1 – C O R P O R A T E G O V E R N A N C E : A N IN T R O D U C T IO N ? Then he started making illegal trades, partly to hide his own mistakes, and then in an attempt to make massive profits – the 88888 account became his hiding place for everything. Eventually he opened positions that left Barings heavily exposed if the Nikkei fell … and the Kobe Earthquake caused it to crash.

With losses growing daily on positions he could not close … he ran away. Only then did Barings find out how bad the situation was, and it was too late to save the Bank … which was later to be sold for ? 1. ? ? ? Common features of these examples? ? ? ? ? ? ? Too much control in the hands of 1 person. Nobody asking questions of this person. This person was the only one to know all the real information. Personal greed. Directors who failed in their duty to look after the company. Poor quality auditors who should have seen what was happening much earlier.

As we shall see shortly, these corporate failures caused the UK Government to act – and throughout the 1990s corporate governance grew in importance … but had enough been done? More recent problems
Enron ? ? ? ? ? ? ? ? ? ? ? ? ? Successful US energy company, based in Houston, Texas. One of the top 10 companies in the US. Were using accounting

techniques that were either illegal, or at least questionable, to hide the massive debts the company had. Enron were borrowing through " Special Purpose Entities" that they controlled, but that were NOT consolidated into Enron's figures.

With much of the borrowing guaranteed against the value of Enron shares, all it needed was rumours of problems and the share price would start to fall … … leading to some of the borrowing needing to be repaid … … causing the share price to fall even more … … and the company collapsed in late 2001. Incredibly, this situation had many similarities to the previous UK examples: Poor quality auditing – Andersens, one of the top accountancy firms in the world, lost their reputation and collapsed as a result of Enron. Poor quality directors – those not involved in the fraud failed to understand what was going on, and failed to ask questions.

Personal greed – leading Enron directors made millions from the way in which the special purpose entities were set up. Clearly, companies / corporations need to be governed / regulated in some way. www. studyinteractive. org 11 C H A P T E R 1 – C O R P O R A T E G O V E R N A N C E : A N IN T R O D U C T IO N Banking Crisis 2007-2010 ? ? ? Banks had been lending to riskier and riskier people, especially for mortgages. Because banks trade these mortgage assets (they are receivables), the whole banking sector was involved. Many banks had taken big risks to expand, including taking over other banks at very high prices (Royal Bank of

Scotland took over Dutch bank ABN-Amro, Lloyds took over Halifax Bank of Scotland). Northern Rock realised that defaults on loans were a major

problem, and the rumours caused a “ run” on the bank. The UK government stepped in to save it, and restore market confidence. But other banks were also in trouble, and the hidden truth started to become clear. In late 2008, Lehman Brothers collapsed, with the US government choosing not to rescue them. In the UK, RBS and Lloyds both had to be rescued by the UK government putting in billions of pounds and becoming the major shareholder.

This has raised many questions about risk management, riskculture, remuneration (especially bonuses) and the way performance is measured in relation to risks being taken, the role of auditors and financial reporting etc. ? ? ? ? ? 12 www. studyinteractive. org C H A P T E R 1 – C O R P O R A T E G O V E R N A N C E : A N IN T R O D U C T IO N WHAT IS CORPORATE GOVERNANCE? ? ? In many organisations, those controlling it are not the same people who own it. In the largest organisations, owners may have such small individual stakes that: o o o ?

They do not care too much what the organisation does. They are not prepared to challenge the directors. They do not have the power to challenge the directors. The biggest owners are often institutional shareholders – for example, pension funds o o They are investing money on behalf of others – it is not theirs. They tend to be “ inactive” by nature, preferring not to “ rock the boat”. ? Globalisation has resulted in the biggest companies / organisations becoming even larger than in the past – which is making the above issues even more important.

Recent corporate disasters and the apparent increase in corporate fraud and unethical business behaviour have lead to a lack in trust in directors. ? This all leads to the AGENCY PROBLEM. The agency problem In simple terms, if you want something done properly, the way you want it done … Do It Yourself! Agents are people employed to do something for you (you are the " principal"). The risk is that they do it for themselves … rather than fulfilling their " fiduciary duties" to you. Agency Costs If you employ someone to do something for you, additional costs will arise: ? ? ? ? ? The agent will expect to be paid for their work The agent may expect additional benefits A nice office A company car To travel first class while doing your business You will have to spend some time and effort monitoring the agent to ensure they are doing what you want … and the less you trust the agent, the more checking you will want to do! www. studyinteractive. org 13 C H A P T E R 1 – C O R P O R A T E G O V E R N A N C E : A N IN T R O D U C T IO N Corporate Governance is a system of laws or guidance aimed at making (or helping) directors manage companies in the best interests of shareholders, and potentially other stakeholders.

Its objective is to create effective, entrepreneurial and prudent management, to deliver long term success. In other words, it is an attempt to deal with the agency problem (conforming) with a view to maximising long term performance. CORPORATE GOVERNANCE RULES / GUIDANCE Who sets the rules? ? Global – the OECD have developed a Code (Organisation for Economic Cooperation and Development). The ICGN (International Corporate Governance Network) has used its membership to create its own more

detailed guidelines built around the OECD Code, and designed for use by any country.

National – many countries have developed their own systems, sometimes as laws (e. g. Sarbanes-Oxley in the USA) and sometimes as a Code (e. g. UK Corporate Governance Code (formerly called Combined Code)). Companies – many companies have tried to develop their own policies on Corporate Governance, some of which go further than the rules or Code their country expects them to follow. Other – in some countries, a regulatory body will set some rules. For example, something that appears to be “ voluntary” can effectively become law (e. g. n UK all listed companies are required to either follow the UK Corporate Governance Code, or explain why they have not followed it – Stock Exchange Rules). ? ? ? Underlying concepts behind corporate governance These are the fundamentals behind how companies (and more importantly those involved with companies, primarily directors) should behave. As we will see at the end of the course when we study business ethics, there remains some debate about the words “ should behave”… Fairness All people affected by decisions (stakeholders) should be treated with equal consideration. Openness / transparency

All information should be made available to stakeholders, and in a clear manner. This may suggest companies should not just follow disclosure rules, but also add voluntary disclosures if it adds to transparency. 14 www. studyinteractive. org C H A P T E R 1 – C O R P O R A T E G O V E R N A N C E : A N IN T R O D U C T IO N Independence All those in a position of monitoring should be independent of those / what they are monitoring: ? ? ?

Non-Executive Directors should be independent of the Executives, and of company operations. External auditors should be independent of the company, especially its accounting department and processes.

Internal auditors should be independent of the company, as they are likely to be involved in monitoring systems throughout the company's operations. Probity / honesty This is not just telling the truth – it also means finding out / investigating the truth, not ignoring it (not " turning a blind eye"). Responsibility Directors should understand and accept their responsibility to shareholders and other stakeholders, and act in their best interests … and be willing to accept the consequences if they fail in this responsibility. AccountabilityThis links with responsibility.

Directors must be willing to be held to account (i. e. be judged) for their actions – and whilst responsibilities can be delegated down through the management structure, accountability comes with the job and cannot be passed to others. Reputation Directors must protect their own reputation, and that of the company they run, as damage to either is likely to lead to more widespread damage to the company. This raises an interesting debate about whether a director's private life is in fact private – since a bad personal reputation is likely to affect their business reputation and hence that of the company. Judgement

Directors must ensure they have all the necessary information and understanding in order to be able to make sensible business decisions that improve the prosperity of the company. Integrity This is quite a general term and has a crossover with some of the other terms above. Integrity means

honesty, fair-dealing, presenting information without any attempt to bias opinion … and in a more general sense, " doing the right thing". It also links with words such as consistency, reliability, trust – and therefore integrity applies not just to people such as directors and auditors, but also to systems, financial reporting etc. ww. studyinteractive. org 15 C H A P T E R 1 – C O R P O R A T E G O V E R N A N C E : A N IN T R O D U C T IO N THE MAIN AREAS OF CORPORATE GOVERNANCE Using the UK Corporate Governance Code as an example, the primary areas of Corporate Governance are as follows: Directors An effective board of directors should: ? ? ? Lead company strategy, with prudent controls and risk management, to maximise sustainable long term success of company. Set the company's values. Include Non-Executive Directors (NEDs) who: o o o contribute to strategy, and challenge the Executives. assess performance of the Executive Directors.

Oversee integrity of financial information, control systems, and risk management. Decide remuneration of the Executive Directors. Appoint, remove, Directors. and consider succession planning of Executive o o ? ? ? ? Should meet regularly, with a formal agenda. Should detail its membership (including Chairman, CEO, Senior Independent Director, Committee members) and work in the Annual Report. Should ensure Chairman and NEDs meet without the Executives, to consider their performance. Should ensure NEDs meet (with SID leading) without Chairman annually, to consider the performance of the Chairman.

Chairman and Chief Executive Officer (CEO) ? ? ? ? ? ? ? Should not be the same person. Chairman leads Board, and sets agenda for Board Meetings ensuring there is enough time for important matters and all directors contribute. Chairman, aided by Company Secretary, should ensure adequate information flows between Board members, and in advance of Board meetings. Chairman is key contact for shareholders. Chairman is Independent on appointment. Chairman is not the former CEO of the company. CEO runs the company. Board balance ? No one person, or group, should be able to dominate the Board. 6 www. studyinteractive. org C H A P T E R 1 – C O R P O R A T E G O V E R N A N C E : A N IN T R O D U C T IO N ? ? ? ? For the biggest companies (FTSE 350) at least ? the Board, excluding the Chairman, should be Independent NEDs. Should be an appropriate size, and right balance of skills and experience. This includes diversity, including by gender. Annual Report must detail which NEDs are considered independent. Should appoint a Senior Independent Director – so shareholders (and board members) have an alternative to talking to the Chairman.

Appointments to the board ? ? ? ? ? Nomination Committee, majority of whom are Independent NEDs. Chaired by Chairman (unless Chairman is being discussed). Have objective merit-based criteria for selection of new Board members. Report its work in the Annual Report. Oversee induction and training for all directors (likely to be organised by Chairman, assisted by Company Secretary). Annual performance review ? Board, its committees, and individual directors should have performance appraised at least annually. Re-election of board members At 1st AGM after appointment to

Board, and at least every 3 years afterwards, by shareholders (note, for FTSE 350 companies, all directors are up for reelection every year). If not annual re-election for all directors, sensible to “ retire by rotation” and avoid potentially losing all the Board in one go. ? Remuneration of directors ? ? ? ? ? ? Enough to attract, retain and motivate. Significant proportion should be performance-related. Should consider industry pay levels. NED remuneration should not be performance-related, but should reflect time involvement of the role.

If a director is removed before the end of contract, provisions should be in place to ensure they are not over-compensated forfailure. Notice periods no longer than 1 year. Remuneration committee ? ? At least 3 Independent NEDs as members. Should set remuneration of all executive directors and the chairman, and senior management. www. studyinteractive. org 17 C H A P T E R 1 – C O R P O R A T E G O V E R N A N C E : A N IN T R O D U C T IO N ? ? Remuneration of NEDs is flexible – could be by Board as a whole, by shareholders, or a separate Board Committee.

Shareholders must approve any long term share options. Financial reporting ? Board should present a balanced assessment of company’s position and future prospects, its business model, its strategies, and that it is a going concern. Internal control ? ? Board should ensure a sound system of Controls (more detail on this in Chapter 6). Annual review of effectiveness of Controls, and report this in Annual Report. Audit committee and audit ? ? ? Audit Committee of at least 3 Independent NEDs (smaller companies = 2). At least 1 member to have recent relevant financial experience.

Main role is liaison with the internal and external auditors on all matters (more detail on this in Chapter 6). Relations with shareholders ? ? Regular dialogue with shareholders. Chairman to ensure shareholder views communicated to Board. Constructive use of AGM ? ? ? Communicate with investors and encourage debate. Separate resolutions on each issue. Allow and monitor the use of proxy votes. Institutional shareholders (UK Stewardship Code) ? ? Should themselves ensure dialogue with directors. Should make considered use of their considerable voting power.

The update of The Combined Code in 2010 resulted in numerous changes (all of which are reflected in these course notes). There were 2 major concerns: ? ? That directors were following the “ letter” of the Code rather than its “ spirit”. Better interaction was needed between directors and shareholders. Regarding the second of these, it was agreed that the largest Institutional Shareholders should have their own code of governance, and that the UK Corporate Governance Code would focus on directors. As a result, the new UK Stewardship Code was created, to work alongside the UK Corporate Governance Code.

There is more detail on this within Chapter 2. 18 www. studyinteractive. org C H A P T E R 1 – C O R P O R A T E G O V E R N A N C E : A N IN T R O D U C T IO N THE BUSINESS CASE FOR CORPORATE GOVERNANCE Corporate Governance differs between countries, but tends to be either law, or “ best practice” which companies are generally expected to comply with. But if it can be shown that improved corporate governance leads to increases in company profits and share price, any sensible Board of Directors would

surely choose to have good corporate governance voluntarily … meaning there would be no need for regulation.

There are arguments both for and against this link being true: For ? ? Good governance includes good risk management which must surely improve the performance of a company. Good governance creates a better impression of the company to investors, who are more likely to want to buy the shares and hence will drive up the share price. Happier investors are likely to require a lower rate of return on their investment, meaning company finance would be cheaper. A more balanced Board should reduce the risk of a single director defrauding the company. Some aspects of governance, e. g. orporate responsibility, may improve the company’s reputation among its customers, and lead to products achieving a premium price, and sales volume increasing. ? ? ? Against ? ? ? ? Governance means lots of new systems and monitoring to make sure there is compliance takes time and money. If investors feel companies are doing it purely to comply, they may not feel there are any major business benefits. The governance requirements are likely to need more directors, especially NEDs, to be employed – and senior staff are not cheap! Increased reporting responsibilities, and increased accounting complexity. Conclusion

Real world evidence suggests very strongly that improved governance DOES lead to improved company valuation … and companies with poor governance get bad media reaction, complaints from investors, and their share price tends to suffer as a result. www. studyinteractive. org 19 C H A P T E R 1 – C O R P O R A T E G O V E R N A N C E : A N IN T R O D U C T IO N 20 www.

studyinteractive. org Chapter 2 Corporate governance – more detailed areas EXAM STYLE QUESTIONS ? ? ? ? ? ? ? ? ? Explain the role of directors in a company? What is meant by fiduciary duty? What are the main roles of Non-Executive Directors?

Explain the importance of the independence of NEDs, and circumstances where their independence could be threatened? Explain the importance of succession planning for a Nomination Committee? Suggest some of the content of an induction programme for a new company director? Explain the importance of annual performance reviews for boards of directors, and how such a review could take place effectively? Discuss the main components of a director remuneration package, and how to ensure it is aligned with company interests? Explain the importance of institutional shareholders, and the circumstances in which they may intervene in a company? ww. studyinteractive. org 21 C H A P T E R 2 – C O R P O R A T E G O V E R N A N C E : M O R E D E T A IL E D A R E A S CHAPTER CONTENTS THE ROLE OF DIRECTORS ---------------------------------------------- 23 NON-EXECUTIVE DIRECTORS INDEPENDENCE OF NEDS THE CHAIRMAN AND CEO ROLES 23 24 24 THE NOMINATION COMMITTEE --------------------------------------- 25 INDUCTION OF NEW BOARD MEMBERS 25 BOARD OF DIRECTORS – PERFORMANCE REVIEW ------------------- 26 REMUNERATION OF DIRECTORS -------------------------------------- 27 INSTITUTIONAL SHAREHOLDERS-------------------------------------- 28 2 www. studyinteractive. org C H A P T E R 2 – C O R P O R A T E G O V E R N A N C E : M O R E D E T A IL E D A R E A S THE ROLE OF DIRECTORS Directors have a fiduciary duty, meaning a position of trust. Directors could, for example, use their position

for personal gain (as any “ agent” could). Their fiduciary duty is: ? ? ? To disclose all information held. To disclose any personal profits made from their position as director. To disclose any potential conflicts of interest. All directors should ensure they commit enough TIME to the job (e. g. ther directorships should be kept to a sensible minimum). Non-executive directors A non-executive director, or NED for short, is not involved in day-to-day direction of the company, unlike the Executive Directors. The roles of the NEDS are: ? ? ? ? to contribute to company strategy (STRATEGY role) to monitor the performance of the Executives (SCRUTINY role) to monitor risk management and financial reporting (RISK role) to appoint, remove, and decide the remuneration of the executives (PEOPLE role). Exercise What are the advantages and disadvantages of NEDs? www. studyinteractive. org 23

C H A P T E R 2 – C O R P O R A T E G O V E R N A N C E : M O R E D E T A IL E D A R E A S Independence of NEDs Anyone in a monitoring role needs to be independent of what they are monitoring. For NEDs this means having no connection with any part of the company: ? ? ? ? ? Not an employee within the last 5 years. No business relationships within the last 3 years. Only remunerated with a fee for director duties – no profit share or share options. No closefamilyties to the company. No cross-directorships – this is where the directors of 2 companies sit on each other’s boards as non-executives.

Whilst there may be sensible business reasons for this, to promote links between 2 companies, it means that 2 directors are closely linked, and that both may favour one of the 2 companies over the other. Any NED who has been on a Board for > 9 years is assumed to no longer be independent (and

will be annually re-appointed after this). Any NED representing the views of a major shareholder would be deemed not to be independent. ? ? If a director is not independent, it does NOT mean that they must leave the Board!

It simply means that for Corporate Governance purposes, that director will not be considered an Independent NED … so an additional Independent NED may have to be added to ensure the correct balance. Notice how similar the above rules are to those for external auditor independence, as seen in Paper F8 / 2. 6. The chairman and CEO roles ? ? Historically, many companies saw the promotion of a CEO to Chairman as the final promotion someone could get. In other companies, especially in the USA, the lead director would often be called Chairman & Chief Executive, as many companies preferred to have a single person in charge making decisions.

The modern view is that there should be NO links between the Chairman and CEO: ? ? Not the same person. The CEO of a company should not become Chairman. If the company uses " Comply or Explain" to deviate from this requirement, shareholders should be consulted in advance. There should not be other links between the 2 people (eg close family relationship). ? By having 2 powerful people on a Board who are independent of each other, it should ensure that no one director is able to dominate the Board. The split of responsibilities should be set out in writing, and reported to shareholders. 4 www. studyinteractive. org C H A P T E R 2 – C O R P O R A T E G O V E R N A N C E : M O R E D E T A IL E D A R E A S THE NOMINATION COMMITTEE ? ? ? Role is to monitor the Board and Committees and ensure appropriate membership. Have to decide type of people needed to ensure balance and

skills on the Board. Required role / capabilities should be agreed before searching. May use outside " executive search" agencies (headhunters) to approach potential candidates, especially where they should be independent (Chairman, NEDs). Roles of Committee should be disclosed in the Annual Report. Succession planning ? Cannot just wait for a senior figure like a Chairman or CEO to announce they are leaving – even if they give a year's notice, any potential replacement may also have to give a year's notice! Induction of new board members Exercise You are due to join the Board of P-MEK, a company listed on its country's Stock Exchange, in 2 months' time. What could the company do to help you as you start your new role? www. studyinteractive. org 25 C H A P T E R 2 – C O R P O R A T E G O V E R N A N C E : M O R E D E T A IL E D A R E A S BOARD OF DIRECTORS – PERFORMANCE REVIEW At least once a year, the Chairman must organize an appraisal of (and act on the results of) the performance of: o o o ? ? The Board. Each Board Committee. Each individual Director. Many companies do this internally – although this creates some problems, as all of the directors end up appraising each other! As such, some companies use outside experts in the process, to try to make it more objective. FTSE 350 companies must use someone external (and report on how independent they are) at least every 3rd year. The method of evaluation should be disclosed in the Annual Report. ? 26 www. studyinteractive. rg C H A P T E R 2 – C O R P O R A T E G O V E R N A N C E : M O R E D E T A IL E D A R E A S REMUNERATION OF DIRECTORS As noted in Chapter 1, director remuneration needs to be: ? ? ? Enough to attract, retain and motivate directors But should not be excessive It must also be fully disclosed, with all detail, on a director by director basis

in the Annual Report. There are 5 key elements to a remuneration package for Executive Directors: ? SALARY – which will be based on similar salaries in the Industry, and at similar size companies, and on the skills and experience of the individual director.

PENSION SCHEME CONTRIBUTIONS – which are typically a % of the base salary. BENEFITS – such as company car, travel expense allowances, healthcare etc. In some companies benefits may increase based on performance, but in many companies they are fixed. BONUS – typically based on annual performance measures, to motivate short term performance. LONG TERM SHARE OPTIONS – to motivate in the longer term. The more directors can drive up the share price, the more reward they will get. ? ? ? ? The balance of this package needs careful thought, as there are plenty of potential problems: ? Salaries need to fit in with the salaries of others – including sub-board management. Benefits should ideally be company-related. Directors who travel a lot would be more likely to get a company car, for example. Directors who attend many public events may get a clothing allowance. The annual bonus could lead to manipulation of the Financial Statements, or a deliberate attempt to inflate short term profit (which may harm long term profit). It would be sensible to link the bonus to several challenging measures (and put a cap on it), and not just those that are aimed at financial results: o o o o o o ? Profit Market share Growth

Reduction in staff turnover Reduction in customer complaints Reduction inpollution. ? Share Options, if very profitable, could result in a director retiring the moment they are exercised! Often directors will not be able to

take all of their gains in one go, to try to tie them to the company for at least another year or two! Pay should be aligned with the level of risk taken, and " clawback" provisions should be considered. ? www. studyinteractive. org 27 C H A P T E R 2 – C O R P O R A T E G O V E R N A N C E : M O R E D E T A IL E D A R E A S INSTITUTIONAL SHAREHOLDERS Traditionally, institutional " conservative" by nature: ? hareholders (e. g. pension schemes) have been They would often have such large amounts invested in companies, that they preferred to let the directors make short term mistakes, as long as they still trusted them in the long term. They would often allow directors to grant themselves large pay rises, because compared to their billion pound investment, a few extra million on a salary is immaterial. ? With their shareholdings being large, and their votes therefore considerable, corporate governance regulations have tried to target institutional shareholders to encourage them to be more active, and to use their votes isely. If a Board is underperforming, one large shareholder could create change, whereas smaller shareholders may not have enough " weight" to achieve anything. In recent years, institutional shareholders have indeed become much more active: ? ? ? Partly because corporate governance has encouraged them Partly because many have seen that improved governance leads to increased share prices Partly because those whose funds they are investing are putting more pressure on! As noted in Chapter 1, there is now a UK Stewardship Code aimed at good governance of institutional investors.

Its main principles are: o o o o o o Public disclosure of how its responsibilities will be met Robust policy on conflicts of interest Investors should monitor companies they invest in Policies on when to intervene (see below) Investors

should act together where appropriate Investors should have clear policies on voting, and disclosure of how they voted Investors should report periodically on their activities/responsibilities. o Institutional Shareholders are likely to intervene in a company if: ? ? ? ? ? ? ?

Company is consistently under-performing Company's reputation is poor Directors are failing to communicate with shareholders They have lost faith / trust in the directors Company's strategy appears too risky / not risky enough Consistent failure in company systems Repeated fraud. 28 www. studyinteractive. org Chapter 3 Agency theory and transaction cost theory EXAM STYLE QUESTIONS ? Explain the links between agency theory and transaction cost theory. www. studyinteractive. org 29 CHAPTER 3 – AGENCY THEORY AND TRANSACTION COST THEORY CHAPTER CONTENTS

AGENCY THEORY REVISITED ----------------------------------------- 31 TRANSACTION COST THEORY ---------------------------------------- 32 AGENCY THEORY AND TRANSACTION COST THEORY LINK --------- 34 30 www. studyinteractive. org CHAPTER 3 – AGENCY THEORY AND TRANSACTION COST THEORY AGENCY THEORY REVISITED As we saw in Chapter 1, Agency relationships are caused when a principal employs someone (the Agent) to do something for them. The potential problem is that the Agent may not act in the best interests of the principal: ? ? They might simply not perform the task to a high enough standard.

They might perform the task for their own advantage. A number of agency relationships involving accountants can exist: ? ? Shareholders employ Directors as agents to run companies for them. Shareholders employ

Auditors as agents to check the truth and fairness of the published Financial Statements. The potential for agency problems in companies has increased in recent years because: ? As companies have become larger / global, the gap between the directors and the shareholders has increased, increasing the chance that directors do not act in shareholder interests.

Recent corporate disasters have reduced the level of trust in company directors. Even the largest shareholders have relatively small shareholdings, making it difficult for any shareholder to get enough support (in terms of % of votes) to achieve change. ? ? www. studyinteractive. org 31 CHAPTER 3 – AGENCY THEORY AND TRANSACTION COST THEORY TRANSACTION COST THEORY In the 1930s, economist Ronald Coase was investigating the reasons why companies exist, and why they were growing so large. Example You have left your job, and have decided to run accountancy exam training courses on your own.

You have identified 2 different ways of going about the organisation of your venture: Option 1 You will either buy a property, or agree a 5-year lease. You have identified 6 tutors who could teach all of the exam papers between them, so you would offer each of them a full time job with salary, pension scheme, health care benefits. Each tutor would have a contract of employment with a 6-month notice period. You have found a company who publish the text books and other course materials that you need. You would agree a 2-year supply deal with this company.

In each classroom, you will have installed computer and projection equipment which you would buy. You would also buy the necessary chairs

and tables for students. To help finance this plan, you will take out a 5-year bank loan. Option 2 You will rent hotel conference rooms for courses. For each course, you will book the room 2-3 days before the course once you are sure that the course will run. You will employ tutors on a freelance basis, only giving them a firm commitment for each day of teaching at the same time that you book the rooms. For each course, you will shop around publishing companies for the best deal on course materials.

The necessary IT and projection equipment will be hired on a daily basis, although some hotel rooms have this equipment installed already. Discuss the advantages and disadvantages with these options. Answer Option 1 seems to have created an organisation, or company. The organisation owns assets, has employees, and has entered into contracts. Option 2 seems to involve you running operations from your own home. Everything is organised on a daily basis. Option 2 would not need much of a financial investment. However, it would cause you a lot ofstressbecause: ? ? ? Everything is organised at the last moment possible Tutors and teaching rooms may not be available if they are booked so late IT equipment may not be available at such short notice Getting anything at short notice is likely to involve higher costs 32 www. studyinteractive. org CHAPTER 3 – AGENCY THEORY AND TRANSACTION COST THEORY ? The time spent sorting all of these things out on a daily basis would be huge. Option 1 would require a large financial investment – but it would bring you certainty and control. Conclusion Option 1 would make the directors’ lives easier, because of the increased certainty.

They would know that rooms, tutors, equipment and materials were always available, making it easier to plan ahead. After the initial set-up and agreement of contracts, the time saving would be immense, allowing them to focus on strategy. By having contracts, assets etc. , the directors have internalised transactions. Since they no longer have to go to external markets, they have increased their control. They have also saved the transaction costs of searching for the best supplier / tutor / building and negotiating a price, as all of these have been tied up in long term contracts. The result of all of these benefits?

Directors are likely to prefer to own things, or at least have long-term contracts in place, because it makes their lives easier through increased control and certainty over the future. As such, they are likely to create larger and larger organisations / companies. This may be good for them, but may not result in the best decisions for shareholders or other stakeholders: ? ? ? the organisation may grow larger than is efficient by agreeing long term contracts, the ability to take advantage of good deals in the future may be lost because directors will get to know company staff, assets etc. ery well (because they are internal), they may simply renew contracts without looking at outside options. Next time you order a pizza, or buy your lunch, or get your hair cut, ask yourself why you usually go back to the same place, and get the same product as you did last time … it is most likely because you were satisfied last time, so feel certain that you will get something that is acceptable this time. But there may be better options that you have not investigated! This concept is bounded rationality. You are making decisions

without all the necessary information about some of the options … so you go for the option you know best.

The main reason that you might change would be if an alternative option presented itself at precisely the right moment – and even then such opportunism is not something that everyone would go for! Not everyone is willing to give something unknown a try! www. studyinteractive. org 33 CHAPTER 3 – AGENCY THEORY AND TRANSACTION COST THEORY AGENCY THEORY AND TRANSACTION COST THEORY LINK Transaction Cost theory suggests that companies will keep growing because directors want to make their lives easier, through improved control and certainty. This links with Agency Theory in 2 main ways: ? directors seem to be making decisions that are good for them, rather than for shareholders and other stakeholders … the classic agency problem by making companies larger and larger, the gap between directors and shareholders is likely to widen, making it more likely that directors will not know what shareholders want (and making it harder for individual shareholders to have a " voice" due to their small % shareholdings). 34 www. studyinteractive. org Chapter 4 Governance in different countries and organisations EXAM STYLE QUESTIONS ? ? Explain the differences between legal systems of corporate governance and codes of best practice. Explain how and why governance differs between different countries and cultures. Explain the extent to which governance principles may apply to organisations other than large listed companies. www. studyinteractive. org 35 C H A P T E R 4 – G O V E R N A N C E I N D I F F E R E N T C O U N T R I E S A N D O R G A N I S A T IO N S CHAPTER CONTENTS

UK CODE OF BEST PRACTICE ------------------------------------------ 37 HISTORY OF THE UK CORPORATE GOVERNANCE CODE COMPLY OR EXPLAIN 37 38

SARBANES-OXLEY ACT (SARBOX, SOX) ------------------------------ 39 GOVERNANCE IN OTHER COUNTRIES -------------------------------- 40 UNITARY AND TWO-TIER BOARDS 40 GOVERNANCE OUTSIDE LISTED COMPANIES ------------------------ 42 CHARITIES PUBLIC SECTOR – E. G. COUNCILS 42 42 FAMILY DOMINATED COMPANIES ------------------------------------ 47 36 www. studyinteractive. org C H A P T E R 4 – G O V E R N A N C E I N D I F F E R E N T C O U N T R I E S A N D O R G A N I S A T IO N S UK CODE OF BEST PRACTICE Corporate Governance in the UK is covered by the UK Corporate Governance Code, a document that developed over a number of years.

The Code is kept up to date by the UK Financial Reporting Council (FRC), and a detailed summary of the Code’s provisions was seen in Chapters 1 and 2 of these Notes. History of the UK Corporate Governance Code This is not a history exam! However, the Code includes the results of a number of individual Reports, and it would be reasonable for the P1 Examiner to expect you to recognise the names. Following a series of high profile corporate collapses in the late 1980s and early 1990s, some of which were detailed in Chapter 1, Sir Adrian Cadbury was asked to look into UK corporate governance.

In 1992, the Cadbury Code was created. In 1995, following a series of concerns about excessive director pay, the Greenbury Report was issued, giving recommendations on how to better align director rewards with those of shareholders. In 1998, soon after the Cadbury Code had been in use for 5

years, the Hampel Report reviewed how well the Cadbury Code was working, and made recommendations for change. Important issues There was a concern that the Cadbury Code was too close to a box-ticking approach, and was not making companies think enough about the principles involved. As such, Hampel advocated a more principles-based code.

The London Stock Exchange operates a Comply or Explain approach. All listed companies are expected to follow all provisions of the Code … or explain in their Annual Reports which provisions they have not followed, and why. In 1999, the Turnbull Report was issued. Turnbull gives detail on how to create an effective Internal Control System, which is an essential part of good risk management. There is more detail on this in Chapter 6 of the Notes. In late 2001, Enron collapsed. Whilst Enron was primarily a US company, its operations were international … and it was felt that UK corporate governance may be able to learn some lessons as well.

In 2002/2003, two reports were issued as a result of post-Enron analysis, and both of these reports formed part of the Combined Code in the UK. The Higgs Report looked into improving the effectiveness of directors, especially NEDs. The Smith Report focussed on the role of Audit Committees. The Combined Code was updated again in 2006, but a far more important update was in 2010, when the name was changed to the UK Corporate Governance Code. A review had been due anyway, but the Banking Crisis of 2007-2010 had resulted in numerous issues and concerns, and many of these were relevant to all companies, not just banks. ww. studyinteractive. org 37 C H A P T E R 4 – G O V E R N A N C E I N D I F F E R E N T C O U N T R I E S A N D O R G A N I

S A T IO N S Comply or explain The “ Comply or Explain” approach is NOT the same as saying the Code is Voluntary. The expectation is that listed companies will follow the UK Corporate Governance Code in full, and that non-compliance (and hence explanations) will be rare. Having “ Comply or Explain”, rather than having corporate governance law (as in the US), would seem to have some advantages and disadvantages: Advantages The ability of companies not to comply with the standard provisions recognises that not all company situations are the same, and that some flexibility is therefore welcome. Laws can appear to be heavy-handed, and often do not therefore get the support of the business community. It is hoped that by avoiding laws, businesses will be more willing to contribute to the ongoing corporate governance debate. By requiring explanations of non-compliance, companies are required to think carefully about their reasons … and this may make them decide to follow the Code after all! ? ? Disadvantages Some companies may use the ability not to comply in order to avoid some provisions of the Code, and then present weak (or untrue) explanations justifying their actions. Without the law to back it up, corporate governance becomes harder to enforce. ? 38 www. studyinteractive. org C H A P T E R 4 – G O V E R N A N C E I N D I F F E R E N T C O U N T R I E S A N D O R G A N I S A T IO N S SARBANES-OXLEY ACT (SARBOX, SOX) After the collapse of Enron, WorldCom, and a series of other American corporate frauds and failures, the US Government was keen to act quickly and firmly.

On 30 July 2002, the Sarbanes-Oxley Act was passed (it is named after the 2 US politicians who sponsored it through Congress). It was not long before it became known as Sarbox … or SOX. There are many differences between

SOX and the UK Code: ? ? ? SOX is law, with strict penalties for non-compliance. Practice, not law. The UK Code is Best SOX makes audit partner rotation the law, whereas in the UK such matters are covered by the profession's Codes of Ethics. SOX has a ban on auditors providing a range of " other services" to their audit clients.

In the UK, very few " other services" are banned, but are instead considered within the objectivity area of Ethics. SOX requires the CEO and CFO to personally attest to the accuracy of the Annual Report, Quarterly Reports, and to the effectiveness of Internal Control Systems. In the UK, there are general assurances in the Directors' Report and Annual Report, but no personal certification is required. Under SOX, the auditors must attest the Internal Controls statement. Auditors do not make any such statement in the UK. Under SOX, if laws have been broken (e. g. accounting standards), the CEO and CFO forfeit some of their remuneration (e. . their bonuses). There are no such rules in the UK. Under SOX, no loans can be made by a public company to its directors or other senior executives. Whilst the same rules apply in UK law, there is a de minimus limit and there are some exemptions. ? ? ? ? In many ways, SOX and the UK Corporate Governance Code are very similar, but in many other ways SOX is much more strict, and of course is backed up by the US law. The main areas in which SOX is tough are directors, auditors, and internal controls – which is hardly surprising giving many blame Enron's collapse on a failure in those 3 areas. www. studyinteractive. org 9 C H A P T E R 4 – G O V E R N A N C E I N D I F F E R E N T C O U N T R I E S A N D O R G A N I S A T IO N S GOVERNANCE IN OTHER COUNTRIES Corporate Governance varies around the World, largely due to

different history and cultures. In the UK and US, the model is aimed primarily at the rights of shareholders. In Germany and much of continental Europe, and also in Japan, banks play a more prominent role, often holding shares and having Board members. Such governance models tend to be more inclusive, ensuring that the rights of workers, customers and suppliers (and maybe the community) are represented at Board level.

In Japan, many major company structures were traditionally based around banks. Large groups of companies from many industries would all be financed, and partowned by a major bank, which would create a strong financial alliance. Crossshareholdings between companies were common, and in many cases the companies in the " group" would all supply each other. In South America, Italy, Spain, and large parts of East Asia (e. g. Indonesia) the focus is more on family ownership, with a large % of the biggest companies owned and controlled by a small number of the most powerful families in the country. Unitary and two-tier boards

In countries where there is greater inclusivity in decision-making, or where there is a strong family dominance, it is possible that a 2-tier board will exist. A Management Board will run the day to day operations of the company, but will be monitored by a higher level Supervisory Board. In UK terms, this is similar to having the NEDs on a top board, with the Executive Directors on a separate lower Board. The 2-tier system may also operate with family dominated companies, with family members having their own top-level private Board which has controlling voting rights (and therefore where the true decision-making power rests).

To an extent, schools in the UK may be seen to have a 2-tier system, with the Head / Principal and a small number of senior teachers on a management board, with the School Governors in a more supervisory role. Of course, schools naturally have a lot of stakeholders (parents, teachers etc. ) so would seem well-suited to this structure. Advantages of 2-tier boards ? ? ? Where there is a large Board, splitting into 2 may make discussion and decision making easier. The existence of 2 Boards allows for more stakeholders to be involved. By separating NEDs from the Executive Directors, the independence of the NEDs is likely to be improved. 0 www. studyinteractive. org C H A P T E R 4 – G O V E R N A N C E I N D I F F E R E N T C O U N T R I E S A N D O R G A N I S A T IO N S Disadvantages of 2-tier boards ? ? ? ? ? If one board is clearly senior to the other, it may lead to conflict. It may be better for NEDs to be present during Executive Director discussions, rather than receiving a report of what was said. It is likely to lead to slower decisions. Senior management are now 2 steps away from a final decision, which may demotivate them. In many countries (e. g. UK) all directors have equal legal status, whether Executive or NED.

This may make it necessary for all to sit on a single Board. www. studyinteractive. org 41 C H A P T E R 4 – G O V E R N A N C E I N D I F F E R E N T C O U N T R I E S A N D O R G A N I S A T IO N S GOVERNANCE OUTSIDE LISTED COMPANIES The rise in the importance of governance has been fuelled by fraud and corporate collapses, primarily among large listed companies. But can other governance? companies, and other organizations, learn from corporate Charities Consider the following issues: ? ? ? Could a

Charity suffer from fraud? Does a Charity need to manage risks? Does a Charity need a strategy and effectiveleadership?

The answer to all of these questions is of course yes! In the UK, charities are regulated and monitored by The Charities Commission, whose principles demand: ? ? ? ? ? ? ? Sound governance Effective controls A Board that is competent and independent A Board that monitors its own performance Training for Board members All Board members to identify any conflicts of interest Good risk management system. Of course, charities are typically not companies, and may not be used to behaving in a “ corporate” manner, because: ? ? ? ? ? They are often run by volunteers, who may have minimal business experience.

They are often much smaller than companies, so are less likely to have the need (or resources) for things like Board Committees. Often the founder of the charity leaves rules in place to ensure future decisions are still made according to his original intentions. It may seem “ harsh” to forcibly rotate a volunteer off a charity’s Board. It may be that as volunteers, there are no Board remuneration issues (other than reclaimed expenses). Public sector – e. g. councils Traditionally, councils were seen as full of faceless officials, inefficiently spending the public’s money.

Many would not associate a council with words such as accountability or responsibility, assuming that decisions were often made for political reasons, or because you knew someone on the council and were able to persuade them to get you what you wanted. 42 www. studyinteractive. org C H A P T E R 4 – G O V E R N A N C E I N D I F F E R E N T C O U N T R I E S A N D O R G A

N I S A T IO N S However, Councils have also taken many aspects of governance to heart. Consider Harrow Borough Council in London, whose website includes sections on: ? ? ? ? ? Sustainability The councilors, and how elections operate How council decisions are made Budgets and spending plans Council strategy Council performance. Clearly many aspects of corporate governance do not have such importance in a council, but equally there are other areas which do. Haringey Borough Council seem to go even further – the following shaded pages are taken from: www. haringey. gov. uk/index/council/ourstandards/ethicalgovernance. htm. Conclusion Organisations such as charities, government departments, councils and other noncorporate bodies suffer many of the same issues as large listed companies.

The stakeholders are often different – they may be taxpayers rather than shareholders for example – and will have different “ claims” as a result. Also, the “ culture” is likely to be different, especially if the aim is to provide a service rather than profit maximization. But most of the issues that relate to public companies are likely to affect all types of organization. www. studyinteractive. org 43 C H A P T E R 4 – G O V E R N A N C E I N D I F F E R E N T C O U N T R I E S A N D O R G A N I S A T IO N S Ethical Governance Standards you should expect from us

In Haringey we are committed to the highest standards of ethical conduct from our Councillors and officers. On this page you will find an outline of these standards. These standards can be found in: ? ? Part Five, Section A - Members' Code of Conduct and Part Four, Section K - Officer Employment

Procedure Rules of Haringey Council’s Constitution. On this page you can also find out about our • • • • • Standards for Councillors - general principles and Standards Committee Councillors' Register of Interests and hospitalities Customer Standards How to report a complaint, compliment or suggestion about a council service Whistleblowing

Standards for Councillors The standards for elected Councillors are clearly set out in The Members’ Code of Conduct (see the link above). Listed below are the general principles of the code: Principle Selflessness Explanation Members should serve only the public interest and should never improperly confer an advantage or disadvantage on any person Members should not place themselves in situations where their honesty and integrity may be questioned. They should not behave improperly and should on all occasions avoid the appearance of such behaviour.

Members should make decisions on merit, including when making appointments, awarding contracts, or recommending individuals for rewards or benefits. Members should be accountable to the public for their actions and the manner in which they carry out their responsibilities. Members should co-operate fully and honestly with any scrutiny appropriate to their particular office. Members should be accountable to the public for their actions and the manner in which they carry out their responsibilities. They should co-operate fully and honestly with any scrutiny appropriate to their particular office.

Members should be as open as possible about their actions and those of their Honesty and Integrity Objectivity Accountability Openness 44 www.

studyinteractive. org C H A P T E R 4 – G O V E R N A N C E I N D I F F E R E N T C O U N T R I E S A N D O R G A N I S A T IO N S Personal JudgementRespectfor Others Duty to uphold the Law Stewardship Leadership authority. Members should be prepared to give reasons for those actions. Members may take account of the views of others, including their political groups, but should reach their own conclusions on the issues before them and act in accordance with those conclusions.

Members should promoteequalityby not discriminating unlawfully against any person, and by treating people with respect, regardless of their race, age, religion, gender, sexual orientation or disability. They should respect the impartiality and integrity of the authority's statutory officers, and its other employees. Members should uphold the law and, on all occasions, act in accordance with the trust that the public is entitled to place in them. Members should do whatever they are able to do to ensure that their authorities use their esources prudently and in accordance with the law. Members should promote and support these principles by Leadership, and by example, and should act in a way that secures or preserves public confidence. Standards Committee Standards for Councillors are overseen by the independently chaired Standards Committee. The aim of the Committee is to promote high standards of ethical conduct among elected Councillors. The Standards Committee page also outlines the procedure that you should go through if you want to report a complaint about a Haringey Councillor.

The page gives details about the Standards Board for England, an independent body set up to ensure that standards of ethical conduct are

maintained across authorities and to deal with complaints of misconduct against individual Members. | Back to top Councillors' Register of Interests and hospitalities Haringey's Code of Conduct for Members also requires Members to register their financial and other interests in a maintained and publicly available register. This requirement is to ensure that Members do not have a personal vested interest in a decision made by the Council (whether implemented or not) which might prejudice their judgement.

You can access an edited online version of the register from the Register of Councillors' Interests webpage. We also maintain a full register which is open to the public at all reasonable hours and is available for inspection, by appointment, at: River Park House, 225 High Road, Wood Green, London N22 8HQ. | Back to top www. studyinteractive. org 45 C H A P T E R 4 – G O V E R N A N C E I N D I F F E R E N T C O U N T R I E S A N D O R G A N I S A T IO N S Customer Standards Our officers are committed to delivering high standards of service provision that includes transparent and accessible governance.

The rules governing our officers' conduct are outlined in Haringey Council's Constitution. Haringey also has a separate Customer Charter that outlines the standards that you should expect from all council officers. Your feedback helps us to improve our services and ensures that we treat everyone fairly. If you are unhappy with something that we have not done, then please let us know. | Back to top How to report a complaint, compliment or suggestion The complaints, compliments and suggestions webpages explain the various ways that you can contact us to report your feedback.