

## **CGMA NOVEMBER 2016 EXAM ANSWERS**

### **Variant 3**

*These answers have been provided by CIMA for information purposes only. The answers created are indicative of a response that could be given by a good candidate. They are not to be considered exhaustive, and other appropriate relevant responses would receive credit.*

*CIMA will not accept challenges to these answers on the basis of academic judgement.*

#### **SECTION 1**

##### *Part 1*

The first issue that should be addressed is the safety of milk as a product. Customers might be put off by the suggestion that their carton of milk could be tainted by a disease in the herd. Ideally, the supermarkets will stress that they require all farms to take care to ensure that we deliver a safe and pure product. They will also conduct their own quality processes to check the purity and it would be reassuring for customers to be informed of that.

On the subject of safety, the supermarkets will be well placed to know whether consumers are being harmed by tainted milk. We would have been informed if that had been the case, so we can be reassured that our milk is safe. The supermarkets should release details of the level of complaints that have been lodged and those that have been attributed to problems with the milk. Even if there have been a few cases, the disclosures will enhance transparency and the incidence should be recognised as being very low.

Retailers are under constant pressure to check that their suppliers operate ethically and fairly. They can use that in our support. One or more of the major supermarkets should conduct a visit to our farm to check that we take animal welfare seriously. The inspection should, as always, be carried out by people with the necessary training and experience to express a valid opinion. They should release a statement to the effect that ADF's cattle are properly cared for in a manner that meets their needs. The average lay person is not necessarily equipped to understand what sort of environment a cow requires.

The supermarkets should also make it very clear that ADF's standards are as good as one would expect throughout the industry as a whole. There is a danger that ADF will be subject to protests and other actions if we are regarded as abusing or neglecting our cattle. If we are seen to meet or exceed industry norms then we may still be at risk because our name featured prominently in the press report, but we may be viewed as a less visible target. Having the supermarkets pledge their support will demonstrate some confidence because they are pledging their reputations in support of ours.

## *Part 2*

First of all, we should check the identities of all visitors to the farm, whether they be job applicants or anyone else. We could have the member of staff responsible for dealing with any visitor take a photograph of their identification, using their phone camera. It would be a serious deterrent to anyone with a malicious agenda to have to show a driver's licence or other form of photographic identification. If we have a formal identification then we will be in a stronger position to press for civil damages or pursue criminal charges in the event that the visitor misleads us.

We should introduce a more rigorous induction process for new staff. We have a small workforce and it would cost very little to organise, say, a day spent shadowing an experienced cowherd for new recruits. Doing so might avoid the costs and disruption that could occur if new members of staff are injured or harm the cattle in their charge. It would also address the criticism that we permit inexperienced and untrained staff to work in the cattle sheds.

Anyone who is given a tour of the cow sheds should be informed that ADF prides itself on the high standard of care that it provides. Ill-informed visitors may be guilty of evaluating the conditions in the sheds from a human perspective. Cows may not, for example, pine for the freedom to explore out of doors. They may also be happy to be well fed and do not necessarily prefer to eat grass rather than silage.

All staff, at all levels, should be careful about how they describe farm operations. The manner in which our supervisor described the operation does sound uncaring when presented out of context and in writing. It may be impossible to avoid such misquotes in future, but the risk will be reduced if we avoid black humour when referring to the death of cattle and similar events. Similarly, suggesting that cowherds require no skills or knowledge is also potentially harmful to our reputation.

## SECTION 2

### *Part 1*

The GRI Guidelines focus on providing stakeholders with relevant information, stressing that materiality is an issue. Given the nature of our business and the specifics of the adverse publicity, we might focus on animal welfare under the general heading of “Social”. (*Note: candidates are free to address impacts more widely.*)

Our starting point in disclosing our animal welfare approach would be to identify any external standards that we adhere to. At the very least, there will be legal requirements and there may also be guidance published by the dairy industry or professional bodies. Stakeholders will be reassured by the fact that we can benchmark our performance against external standards, particularly if our performance exceeds the minimum. The results of any external reviews or inspections will also be of interest to stakeholders.

Any measures of the inputs that we apply to maintaining the health and comfort of the cows should be disclosed. For example, any training given to the cowherds or shed managers will indicate that we are working to maintain standards and keep up to date with developments in animal husbandry. The backgrounds of our staff, including the extent to which they are qualified through education or experience will also show how we entrust the animals to those who are capable of managing their welfare. Expenditure on qualified veterinary care will also be a useful indicator of the extent to which we are prepared to invest in the welfare of our cattle.

We should inform stakeholders of any statistics relating to accidents or illness, in the interests of demonstrating transparency. The number of animals that had to be slaughtered because of injuries should be disclosed. We should also disclose the number of cows treated for diseases contracted in the cattle sheds. The fact that we can obtain those figures at all indicates that we take our responsibilities seriously.

The question of diseases that might be communicated to consumers will also be of interest to stakeholders. Hopefully, there will be no cases of tainted milk being released into the distribution network, but that fact is worthy of reporting in itself. We can describe the processes in place to ensure the safety of the milk, such as the pasteurisation of all milk before it leaves the farm. Any other tests on the milk to detect bacteria that have passed through the pasteurisation will also be worthy of description.

### *Part 2*

The basic problem here is one of attitude. The cowherds and shed managers behave in a manner that is professional and correct with regard to the animals’ welfare, but they do not display any particular compassion. We need to start by communicating more effectively what we are actually looking for in terms of changing their attitudes. It may be acceptable, or even necessary, for the staff to maintain a sense of detachment from animals that are essentially units of production and whose lives depend on their ability to contribute economically through producing milk and calves. However, a genuine desire to maintain the welfare of the cattle will encourage a higher standard of care and may pre-empt potential protests and criticisms.

We might begin by pointing out that the spirit underlying the Code of Practice is more important than the actual detailed procedures. The Code’s principles are really aimed at ADF’s Board rather than the cowherds and shed managers. The reason that the Board needs the staff to invest in the Code is that they may see opportunities to adapt and extend the Code in order to maximise the herd’s welfare. The Code is not a set of rules, rather it is a basis for managing the cattle in a safe and humane manner.

The purpose of the Code is fundamentally to make ADF a more prosperous business, which is in the interests of the cowherds as well as the Board. If the cows are managed in such a way that they are free of stress and safe from injury and disease then there will be fewer losses. Milk yields may rise and so jobs will be more secure. It may even be possible for ADF to increase wages slightly.

The Code should be viewed as a basis for empowering staff. Taking the concept seriously will involve junior staff offering suggestions for the management of the herd. Having those suggestions taken seriously and acted on should make ADF a more pleasant place to work. Staff will essentially be challenged to think of better ways to work, providing greater job satisfaction in the process.

## **SECTION 3**

### *Part 1*

Admitting Sam would change the dynamic of managing ADF. At present, the Board are all family members who own 90% of the company and the remaining 10% is in the hands of other members of the extended family. This gives the Board the freedom to act in the best interest of the family which may involve taking decisions that are not wholly intended to maximise profit or wealth. Selling shares to Sam could alter that equilibrium because he may decide that he is unhappy with the manner in which the company is being managed. As a 20% shareholder, he will be the second biggest shareholder after Jolene and Archie and so he may be in a position to exert some influence.

Conversely, Sam may not be inclined to interfere. As a retired dairy farmer himself, he understands how the industry works and he is unlikely to complain about the risks that affect the company. As a former neighbour, he knows how ADF is managed and he is presumably keen to see those management practices applied to his farm as well. He has not put Hill Farm on the open market, so he is not necessarily seeking the highest possible price, which suggests that he is willing to compromise over profits. His price seems realistic, because he will be contributing 20% of the total capacity of the expanded farm and is looking for 20% of the equity in return.

### *Part 2*

Any exit strategy will have to be agreed in advance as part of the negotiation of the purchase of Hill Farm. Shareholders cannot normally be compelled to sell their shares.

The simplest scenario would be to have an agreed break point in the contract, at which time ADF would have the right to return Hill Farm to Sam, in return for him returning his shares in ADF. Sam could then re-sell Hill Farm to a third party. We might agree to a scheme for recompensing Sam for any loss of value in Hill Farm while it was under our management. This arrangement would deter Sam from interfering in the management of ADF once he became a shareholder because he would then expect us to invoke our clause. It would also avoid us having to find a substantial cash sum to buy Sam out and would prevent us from having to risk introducing unknown third parties into the company.

In order to make this strategy work, we would have to ensure that Hill Farm is managed on more or less an independent basis, so that it can be untangled from ADF. This would not be particularly problematic because ADF is already operating four separate farms, each under a different manager. We would also have to maintain good financial records so that we could show Sam exactly how Hill Farm has been operating since it became part of ADF. Otherwise, it will be difficult to agree a settlement on Sam's departure and may deter potential buyers in the event that Sam is putting the farm on the open market.

### *Part 3*

It seems very likely that ADF could implement Hill Farm's procedures. Hill Farm is of roughly the same size and nature as each of the four farms presently operated by ADF. Sam appears to have had good results with his methods and so there would be benefits in adapting to Hill Farm's methods.

The first problem is that it is unlikely that there are formal written records of Hill Farm's operating procedures. Dairy Farms are relatively small organisations in terms of staffing and administration and it seems unlikely that there will be a formal systems manual that could be offered to ADF's staff.

Changing systems could breed resentment from ADF's staff. They may feel a sense of rivalry with Hill Farm, given that it has been a neighbouring business for many years and they may not wish to adapt to copy its methods.

There could be a danger that a large part of the difference between Hill Farm and ADF was due to Sam's direct involvement in running things. It may be that any changes will be purely cosmetic and will achieve little or nothing in the absence of an overall change of attitude.

#### *Part 4*

The fact that they are new processes may mean that the internal audit should be deferred until such time as the staff have had the opportunity to get used to the new system and work out any problems in implementation. It may be counterproductive to organise an audit immediately after the change because any compliance errors may be taken out of context.

Having the internal auditor review compliance will underline the point that the Board takes these procedures seriously. This is likely to be an unpopular change and having the internal auditor investigate may identify any problems quickly.

In some respects, having the internal auditor investigate in this way may be less confrontational than a Board member getting involved. Staff should be used to the internal auditor conducting independent investigations and reporting findings.

The only real danger is that the internal auditor might not be particularly well qualified to conduct compliance tests. In the absence of the necessary expertise in cattle management, it may be difficult for the internal auditor to tell whether the new system is in operation or not.