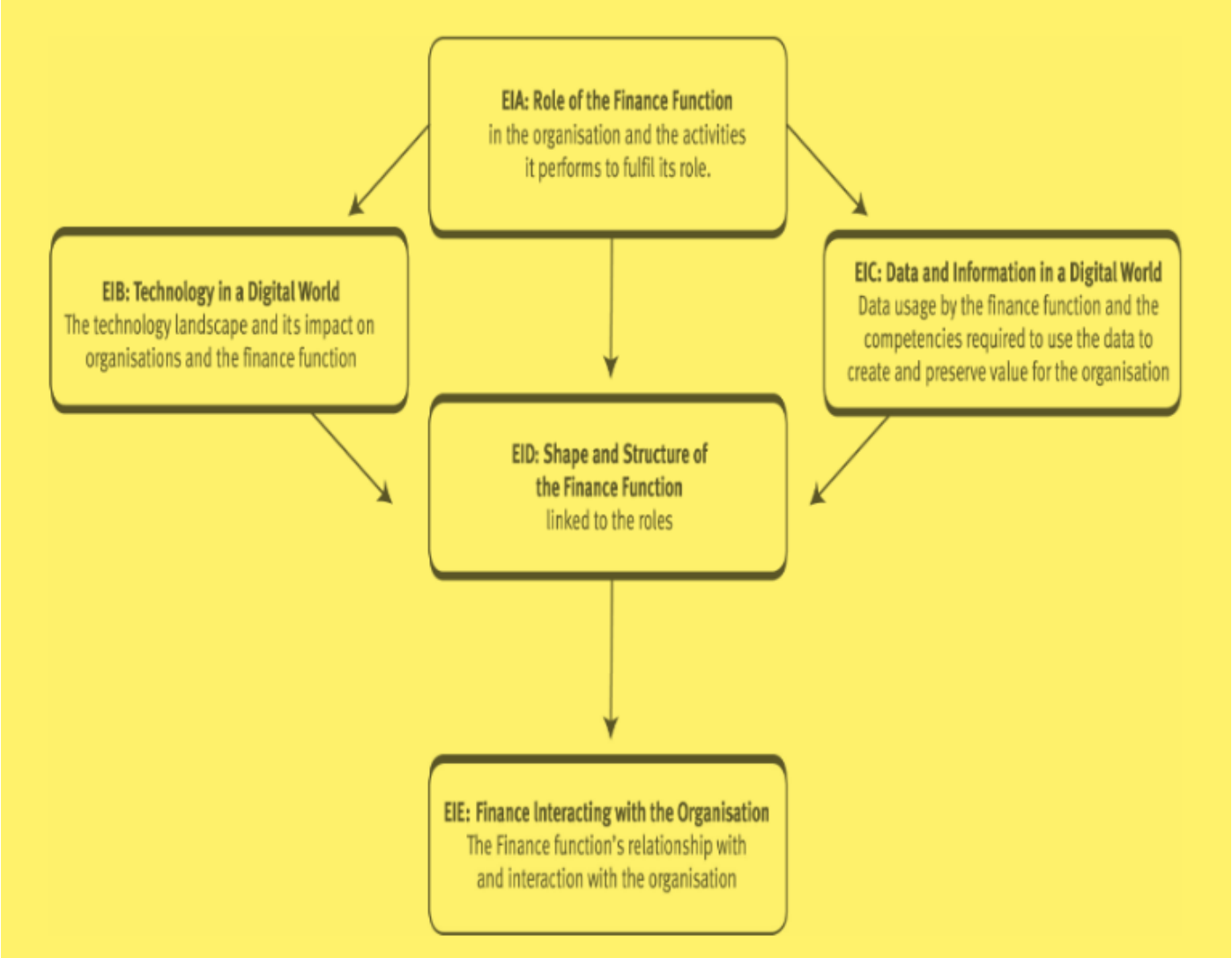
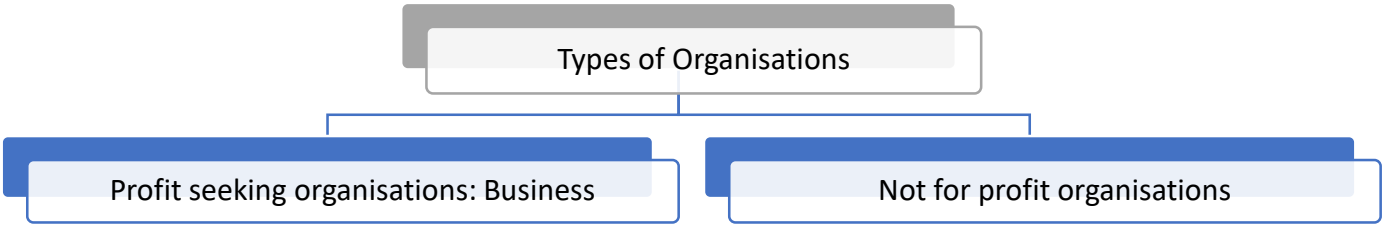
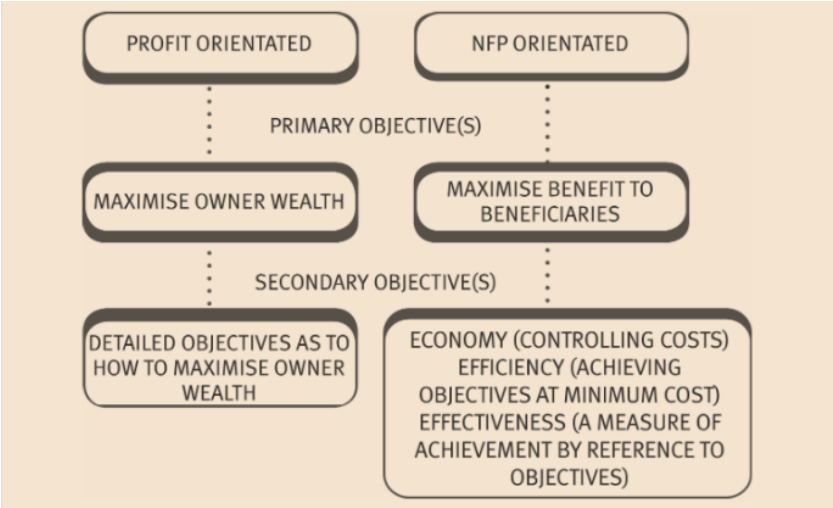
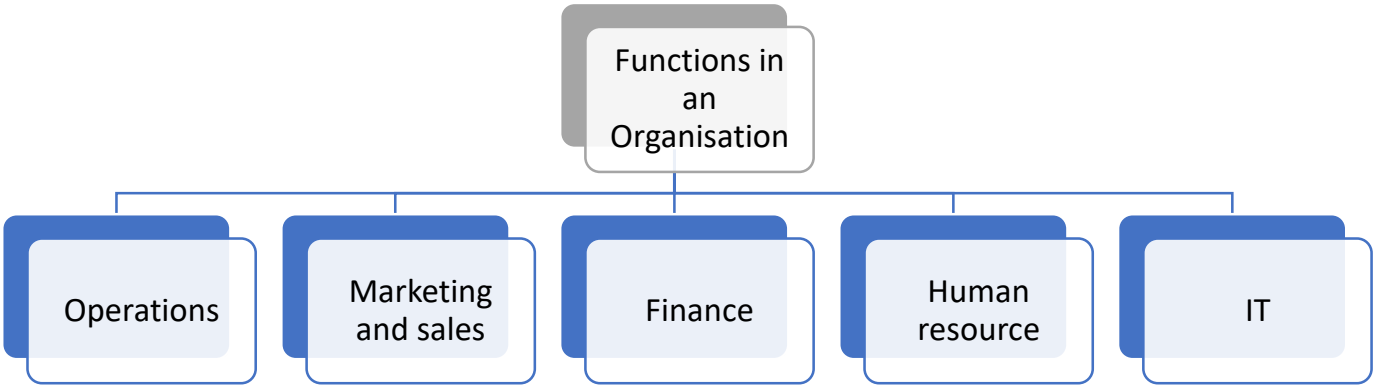
THE ROLES OF FINANCE FUNCTIONS IN ORGANISATIONS

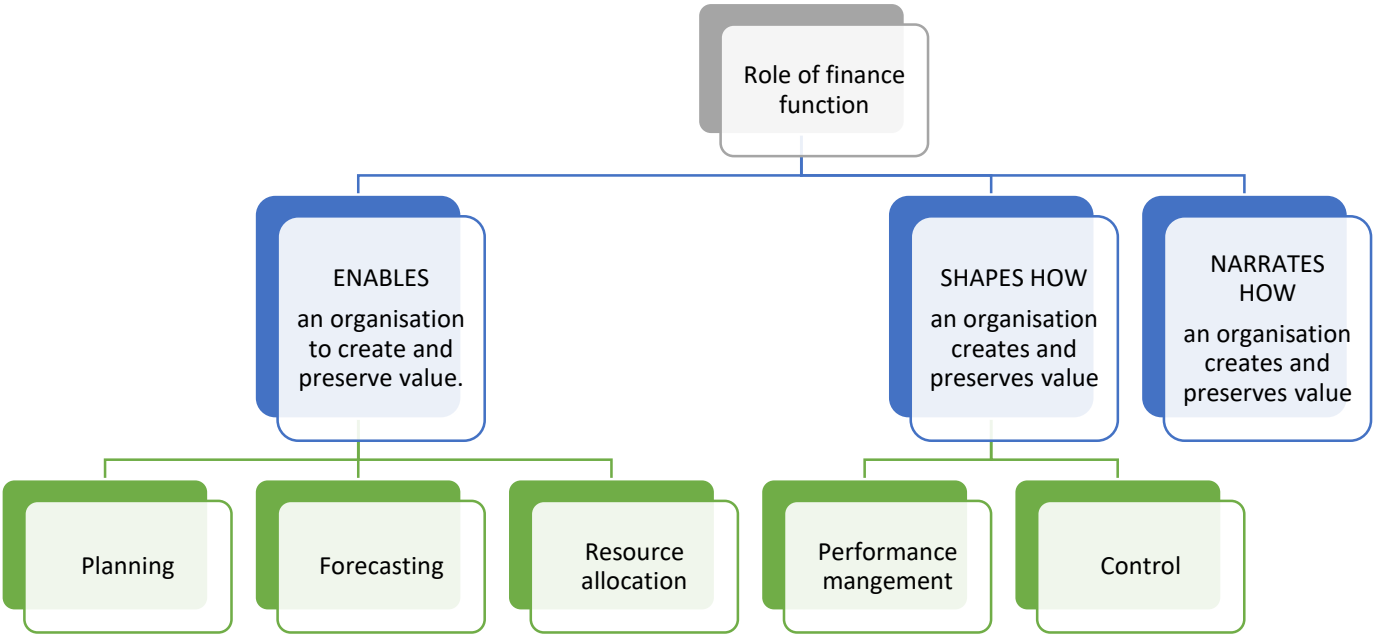
E1 Chapter 1









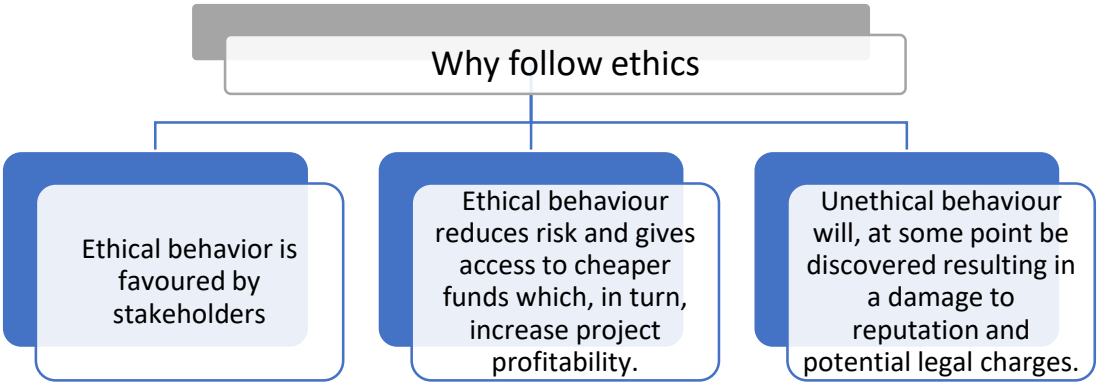


The roles that the finance function performs should be carried out in an ethical way, with integrity and professionalism.

- **Ethics** is the system of moral principles that examines the concept of right and wrong.
- **Business ethics** is the application of ethical values to business behaviour.
- **An ethical dilemma** involves a situation where a decision-maker has to decide what is the 'right' or 'wrong' thing to do. Ethical dilemmas may include accounting issues, production issues, sales and marketing issues or personnel issues.

The Code of Ethics for Professional Accountants, published by The International Federation of Accountants (IFAC), forms the basis for the ethical codes of many accountancy bodies, including CIMA.

Fundamental Principle	Interpretation
Integrity	Integrity means being straightforward, honest and truthful in all professional and business relationships.
Objectivity	Objectivity means not allowing bias, conflict of interest, or the influence of other people to override your professional judgement.
Professional competence and due care	This is an ongoing commitment to maintain your level of professional knowledge and skill so that your client or employer receives a competent professional service. Work should be completed carefully, thoroughly and diligently, in accordance with relevant technical and professional standards.
Confidentiality	This means respecting the confidential nature of information you acquire through professional relationships such as past or current employment. You should not disclose such information unless you have specific permission or a legal or professional duty to do so. You should also never use confidential information for your or another person's advantage.
Professional behaviour	This requires you to comply with relevant laws and regulations. You must also avoid any action that could negatively affect the reputation of the profession.



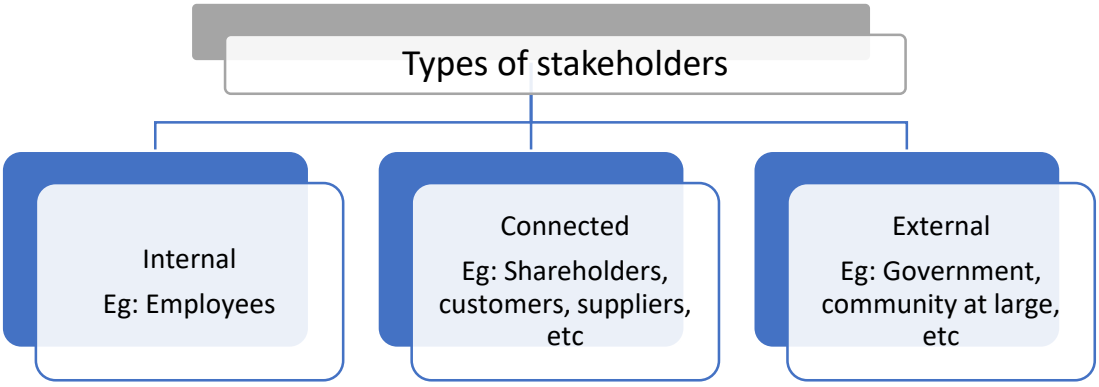
Companies create a written code of ethics to standardise practices and this is usually monitored by a compliance officer.

Stake holders

A **stakeholder** is a group or individual, who has an interest in what the organisation does, or an expectation of the organisation.

Mendelow's Interest Matrix for Stakeholder Management

		Level of Interest	
Level of power		**Low**	**High**
	Low	**Minimal effort** Eg: General public	**Keep informed** Eg: Employees
	High	**Keep satisfied** Eg: Government	**Key players** Eg: Shareholders



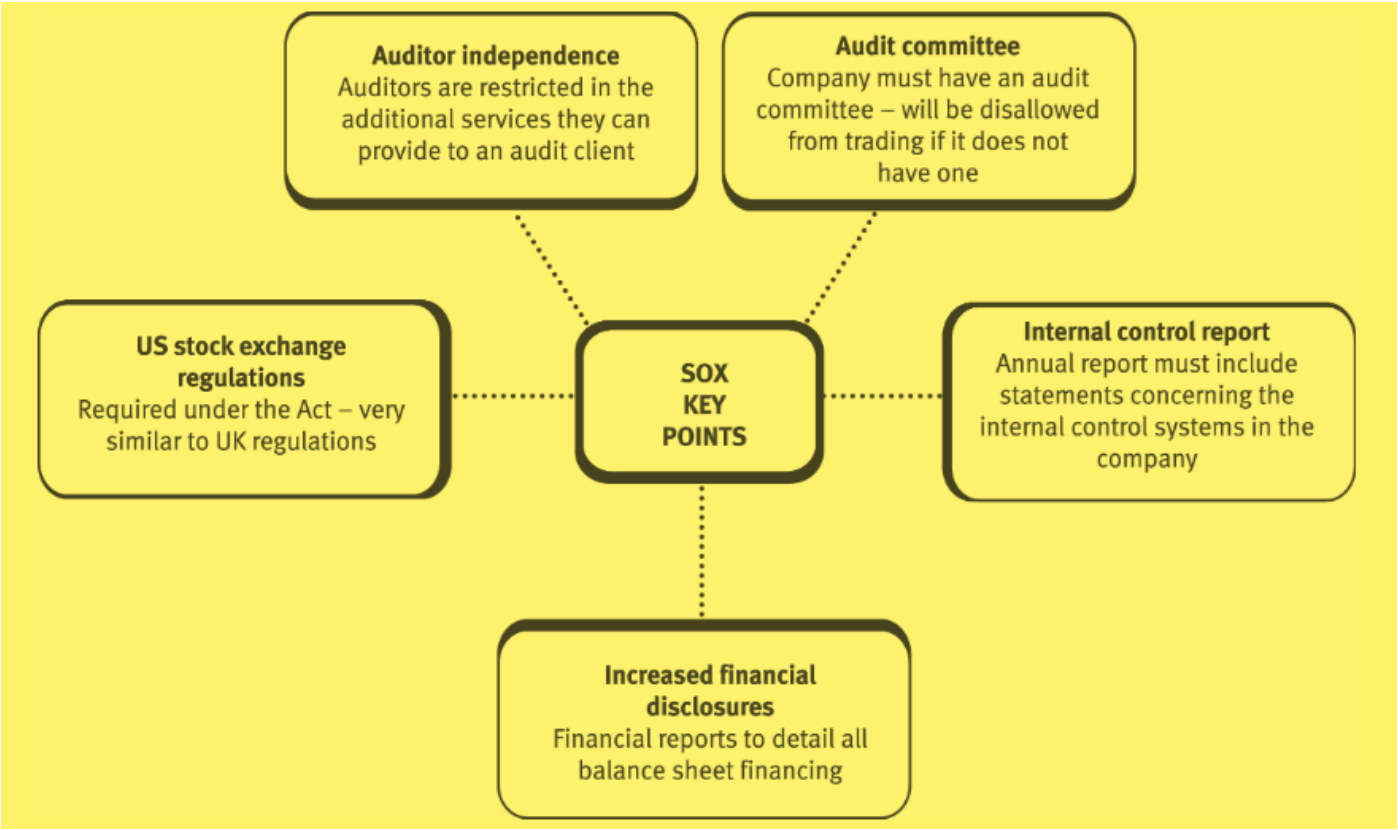
Stakeholders	Conflict
Employees versus managers	Jobs/wages versus bonus
Customers versus shareholders	Product quality/service levels versus profits/dividends
General public versus shareholders	Effect on the environment versus profit/dividends
Managers versus shareholders	Independence versus growth by merger/takeover

Corporate social responsibility (CSR)

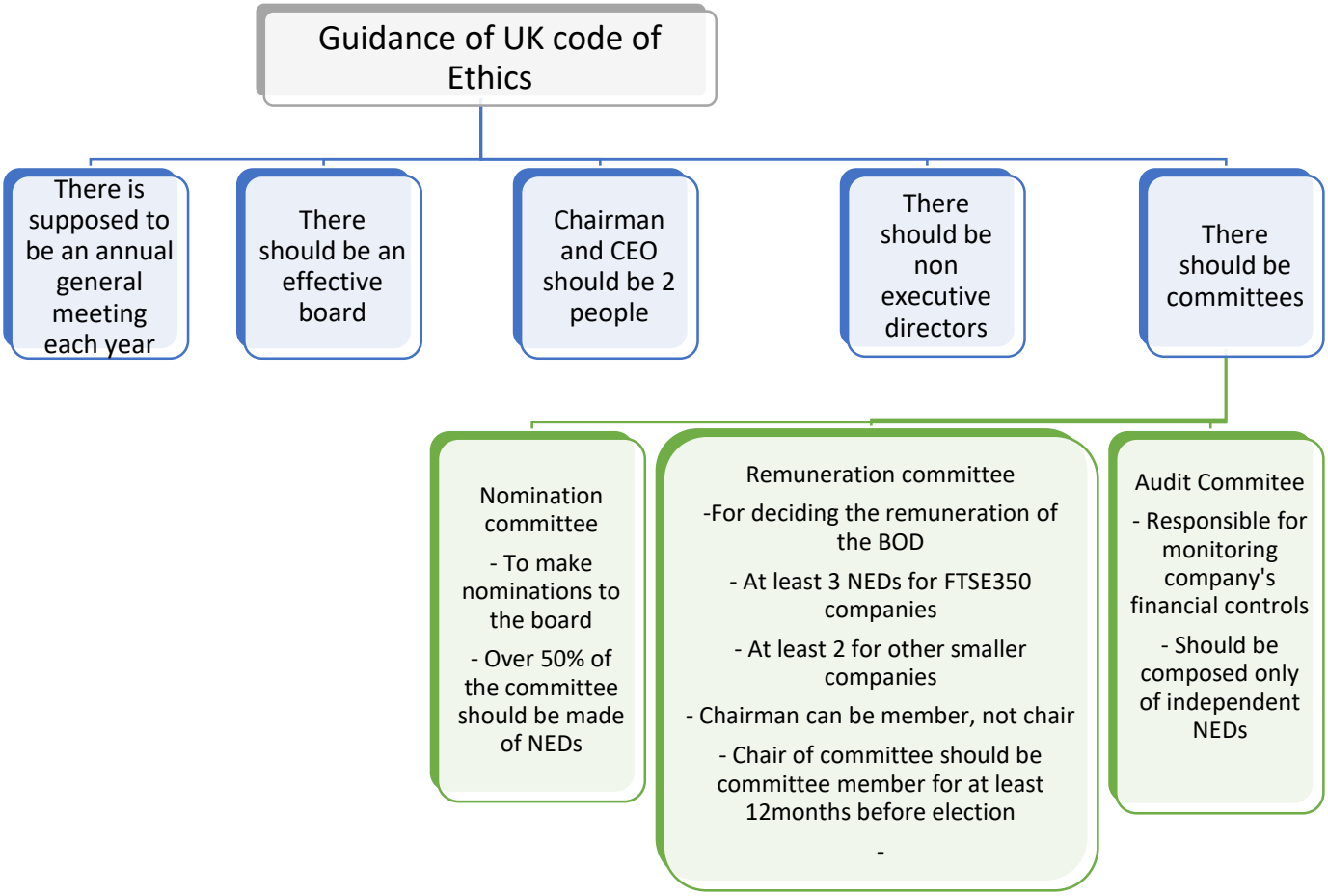
- Corporate social responsibility (CSR) refers to the idea that a company should be sensitive to the needs and wants of all the stakeholders in its business operations, not just the shareholders.
- Traditionalists argue that companies should only focus on their primary objective of making profits.
- Modernists believe that if a company aligns its goals with that of the society, it can in turn enhance its profits due to the following:
    1. Differentiation of products
    2. High calibre staff will be attracted
    3. Brand strengthening
    4. Lower costs
    5. New marketing opportunities and changing social expectations

Corporate governance

- Corporate governance is the collection of mechanisms, processes and relations by which corporations are controlled and operated.
- There is a UK corporate governance code for UK companies to follow.
- The separation of ownership and control refers to the situation in a company where the people who own the company (the shareholders) may not be the same people as those who run the company (the board of directors).
- The conflict between these people is called the agency problem.



The Financial Reporting Council (FRC) is the body responsible for promoting high standards of corporate governance in the UK. All companies listed on the London Stock Exchange are required to apply the principles of the
UK Corporate Governance Code (last revised in 2018) and must produce a disclosure statement confirming compliance with the code and explaining any departures from it. Smaller listed companies, i.e. those not in the FTSE 350 can take a more flexible approach to applying the code.



The role of the audit committee

Responsibilities include the following:

- Reviewing accounting policies and financial statements as a whole to ensure that they are appropriate and balanced.
- Review systems of internal controls and risk management within the organisation. (Note that risk management may be dealt with by a separate committee – the risk committee.)
- Agreement of the work agenda for the internal audit department, as well as reviewing the results of internal audit work.
- Liaising with the external auditors, including dealing with problems in the audit as they arise as well as the appointment and removal of external auditors.

Remuneration committee	
Pros	**Cons**
Avoids agency problem of board members setting their own remuneration	Collusion between NEDs and Executive Directors
Leaves board free to make strategic decisions	Costly