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## CIPS Level 4 - Diploma in Procurement and Supply

### L4M1 - Scope and Influence of Procurement and Supply

#### MOCK EXAMINATION APRIL 2021

Date: Monday 26 April 2021 0900  
hours

Time: 3hrs 30 mins

#### Instructions

1. Answer all questions in the answer booklet provided

Total Marks: 100

Name: \_\_\_\_\_

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## CIPS Scope and Influence of Procurement and Supply Sample Questions (Q23-Q28):

### NEW QUESTION # 23

Sarah has recently been hired as the new Head of Procurement at Alpha Ltd, a manufacturer of small electronics such as hairdryers and alarm clocks. Alpha Ltd has a large factory based in Birmingham where many of the products are manufactured. One of the large pieces of machinery in the factory has recently broken and Sarah has been charged with replacing it as quickly as possible. Sarah is considering using the Whole Life Costing approach to this procurement. What is meant by Whole Life Costing? (5 points). Discuss

5 factors that Sarah should consider when buying new machinery (20 points).

#### Answer:

Explanation:

See the solution inExplanation partbelow.

Explanation:

How to approach this question

- I'd use clear headings with numbers for this one. It asks you for a definition and 5 factors. Number them.

Makes it easy for you to write and easy for the examiner to mark.

- Don't go over 5 - you won't get any extra points for this. So spend your time giving examples and explaining the 5 well, rather than naming more than 5.

#### Example Essay

As the new Head of Procurement at Alpha Ltd, Sarah faces the urgent task of replacing a critical piece of machinery in the company's Birmingham factory. Recognizing the complexity of the decision, Sarah contemplates utilizing the Whole Life Costing approach to ensure a comprehensive evaluation that goes beyond initial expenses. This essay explores the concept of Whole Life Costing and delves into five essential factors Sarah should consider when procuring new machinery.

Definition:

Whole Life Costing (WLC) is a procurement approach that considers the total cost associated with an asset throughout its entire lifecycle. Unlike traditional procurement methods that focus primarily on the initial purchase price, WLC evaluates all costs incurred from acquisition to disposal. This includes operational, maintenance, and disposal costs, providing a holistic perspective on the true financial impact of an asset over time.

#### Factors to Consider in Machinery Procurement

##### 1) Initial Purchase Price:

While WLC looks beyond the initial cost, the purchase price remains a critical factor. Sarah should balance the upfront expense with the long-term costs to ensure the initial investment aligns with the overall financial strategy.

##### 2) Operational Costs:

Sarah needs to analyze the ongoing operational costs associated with the new machinery. This includes energy consumption, routine maintenance, and potential repair expenses. Opting for energy-efficient and reliable equipment can contribute to substantial operational savings over the machine's lifespan, even though this may result in a higher up-front purchase price.

##### 3) Training and Integration:

The cost of training employees to operate and maintain the new machinery is a significant consideration. Sarah should assess how easily the equipment integrates into existing workflows and whether additional training programs are required, impacting both immediate and long-term costs.

##### 4) Downtime and Productivity:

Evaluating the potential downtime and its impact on productivity is crucial. Sarah should assess the reliability and historical performance of the machinery to gauge its potential contribution to sustained production levels and minimized disruptions, impacting the overall operational efficiency.

##### 5) Technology Upgrades and Adaptability:

Sarah should consider the machinery's adaptability to technological advancements and potential upgrades.

Investing in equipment that allows for seamless integration with future technologies ensures that Alpha Ltd remains competitive and resilient in a rapidly evolving industry landscape.

In conclusion, adopting a Whole Life Costing approach empowers Sarah to make informed decisions that align with Alpha Ltd's strategic goals. By considering factors beyond the initial purchase price, such as operational costs, training, downtime, and technology adaptability, Sarah ensures that the replacement machinery not only meets immediate production needs but proves to be a cost-effective and efficient asset throughout its entire lifecycle. The WLC approach safeguards against unforeseen financial burdens, fostering sustainable and informed procurement practices in the dynamic manufacturing environment.

#### Tutor Notes

- Whole Life Costing is on p.28

- Total Life Cycle Costs, Total Cost of Ownership and Life Cycle Costs are all practically the same thing. The book says they're slightly different, but don't get yourself bogged down in trying to remember the differences.

Honestly, in the real world, people use this language interchangeably.

- Other factors you could have chosen to talk about include commissioning costs and disposal costs
- Don't worry if you feel CIPS breezed through this as a topic, they did. It's explained much better in L4M7.

You can read more about it here: Whole Life Costing - What is Whole Life Costing | CIPS and here Whole-Life Cost: What it Means, How it Works ([investopedia.com](https://www.investopedia.com))

## NEW QUESTION # 24

In the supplier selection part of the Procurement Cycle, what criteria can a Procurement Manager use to ensure they award to the best supplier? (25 points)

### Answer:

Explanation:

See the solution inExplanation partbelow.

Explanation:

How to approach this question:

- This is quite an open question and there are many different things you could mention. One way to approach it would be to use Carter's 10 Cs- discuss a couple of these. OR just give a couple of criteria in different paragraphs. Some ideas include: Supplier financial status, Reputation / References, Quality, Availability, CSR Policies / Ethics / Environmental considerations, Accreditations, Added Value. This list is not exhaustive.
- If you're going for Carter's 10 Cs you could name a couple of these: competency, consistency, capability, control, cost, cash, clean, communication, culture, commitment
- I don't think either approach is better or worse. Choose the criteria you know the most about and write about those.
- The question doesn't tell you how many criteria to name, so you have to make a judgement call here. I would aim for 5-6. But if you can only remember 4 that's fine. The main thing they're looking for is that you explain for each one 1) what it is 2) how procurement can check 3) why procurement would look at that criteria 4) an example. If you do too many you risk not going into enough detail on each. It's a balance. 5 is always a good number to aim for if the question doesn't state.

Example Essay

In the procurement cycle, the supplier selection phase is a critical juncture that demands consideration.

Procurement Managers shoulder the responsibility of identifying and awarding contracts to suppliers who not only meet immediate needs, but contribute to the long-term success of the organization. This essay explores various criteria a Procurement Manager can employ to ensure the selection of the best supplier: financial stability, reputation, quality, availability, CSR policies, and added value. Financial stability is a foundational criterion in supplier selection. Assessing a supplier's financial status involves a multifaceted evaluation, with liquidity and gearing ratio taking center stage. The acid test, comparing short-term assets to liabilities, offers insights into a supplier's ability to settle debts promptly, with a ratio exceeding 1 indicating financial health. Meanwhile, the gearing ratio, reflecting the proportion of capital funded by loans, aids in gauging financial risk, with a ratio below 50% considered low-risk. Relying on published Profit and Loss statements and income statements, along with financial credit checks from platforms like Dun and Bradstreet, empowers Procurement Managers to make informed decisions. This financial scrutiny is imperative to avoid entering contracts with suppliers facing imminent financial struggles, safeguarding against potential disruptions to the supply chain.

Reputation and references are another pivotal criterion. Seeking references from previous contracts allows Procurement Managers to gauge a supplier's track record in successfully delivering on similar commitments.

Independent reviews and informal market inquiries supplement this information, providing a holistic understanding of a supplier's performance. However, caution is advised in overreliance on past performance, as variables like personnel changes or contract scale differences may impact outcomes. Recognizing that past shortcomings may have been addressed internally further emphasizes the need for a balanced approach to reference evaluation.

Thirdly, Quality. Beyond the product itself, considerations extend to the supplier's technological capabilities, manufacturing processes, and relevant accreditations such as ISO 9001. Physical visits to supplier sites may be warranted, especially for products like raw materials where samples can be requested. Adhering to recognized safety standards and assessing factors like fire retardancy ensures that the quality of manufactured goods aligns with established benchmarks.

Next, Availability is another important criteria to consider. Procurement Managers must evaluate a supplier's capacity and capability to meet specific requirements. Inquiries about existing contracts and flexibility in response to demand fluctuations provide insights into a supplier's commitment and responsiveness. Assessing the supplier's workload and the significance of the buyer in their client portfolio helps determine the level of attention and service the buyer can expect. A buyer may wish to avoid working for a supplier who is already stretched very thinly with other contracts.

Corporate Social Responsibility (CSR) policies and ethical considerations have gained prominence in supplier selection. Beyond legal compliance, Procurement Managers may scrutinize a supplier's history for convictions or negative press related to corruption, bribery, or fraud. The presence of a Modern Slavery Policy and Environmental Policy, along with relevant accreditations like ISO14001 or Fair Trade certification, attests to a supplier's commitment to ethical and sustainable practices. Procurement would likely seek to appoint a supplier who's CSR vision aligns with their own company's.

Lastly, added value is an important criteria to consider. This is particularly so for Public Sector Organizations governed by the Social

Value Act. In addition to meeting contractual requirements, suppliers may offer knowledge sharing, training, improved processes, or contribute to social value by employing local community members or providing apprenticeships. This criterion aligns procurement decisions with broader organizational goals, enhancing the overall impact of supplier relationships and benefiting the local community.

In conclusion, a careful combination of financial scrutiny, reputation assessment, quality evaluation, availability considerations, CSR policies, and added value analysis forms the bedrock of effective supplier selection in the procurement cycle. Procurement Managers, armed with a holistic understanding of these criteria, should seek not only to fulfil immediate needs, but also consider the long-term impact of supplier appointments.

Tutor Notes

- A 'good' scoring answer (50-70%) will explain the criteria well and give examples. If you're looking for a distinction level answer (70%+) you could also mention advantages, disadvantages and risks associated with each of the criteria. For example, when looking at references and reputation it's important to know that a supplier would only ever provide a good reference to you, they would never tell you of a contract that failed.

Another example is that financial data may be skewed- a supplier may have a low score if they are just starting up or have recently remortgaged a property. It's therefore important to get a commentary as well as the figures / scores.

- You could also mention that criteria could be weighted e.g. more importance given to quality than financial status and also consider how easy or difficult it would be to get the information e.g. a supplier may say they have lots of availability to deliver the service you require, but they may just be saying this to win business.

How do you know for sure?

- Social Value Act isn't in this syllabus. If you work in Public Sector procurement it's something you'll be very familiar with. If you don't or you're outside of the UK do not worry about this. I've just included it to show how you can bring in your own knowledge to questions like this. You could think of particular criteria that's important to your industry and write about that. The Social Value Act: What is it, and why is it important? (samtaler.co.uk)

- Study guide p.77

## NEW QUESTION # 25

What is an electronic system? Describe the following: e-requisitioning, e-catalogues, e-sourcing, e-payment technologies (25 marks)

**Answer:**

Explanation:

See the solution inExplanation partbelow.

Explanation:

How to approach this question:

- Your response will need 5 definitions. For 25 points that means 5 points per section so think about the level of detail you'll need to include. It would be 5 points for electronic system (i.e. your introduction and conclusion), and then do a paragraph on each of the technologies. In the description you could talk about why it's used and the advantages, and give some examples if you know any.

- Definition of electronic system - a system which uses some form of technology and automates a procurement process than would otherwise have been completed manually.

- E-Requisitioning - a way of ordering goods or services. Includes the use of integrated ordering systems such as: ERP/ ERP II / MRP / MRP II

- E-Catalogue- an electronic display of what goods can be ordered. A simple example of this may be a supplier displaying the goods they offer on their website and the prices to purchase the goods.

- E-Sourcing - this involves the early stages of the tender process- using an electronic portal to find a supplier and / or conduct a tender exercise.

- E-Payment - the P2P part of the cycle (procure to pay) - may involve electronic POs and Invoices, BACS, CHAPS and SWIFT payment systems, and the use of Purchasing Cards Example essay:

Electronic systems, commonly referred to as E-procurement, is the business-to-business or business-to-consumer purchase of goods or services, typically using the Internet or other information/ networking systems such as ERP systems. It has developed in the past 20 years as technology has improved and replaces time-consuming manual processes and is now considered the 'norm'. Electronic systems and e-procurement can be used throughout the entire supply chain- not just between a single buyer and supplier.

Examples of electronic systems including the following:

E-requisitioning

This is often used in manufacturing organisations to order raw materials. An electronic 'bill of materials' is created and stock levels are automatically updated. As materials get used and a pre-determined level is reached, this triggers a new order which is placed via an e-requisitioning system such as MRP. It is a technological version of the traditional kan-ban (2 bin) system. E-requisition tools are often cloud-based. It helps buyers simplify the buying process, track orders and provides higher levels of visibility on spend. The main disadvantage to this technology is that it requires technology interfacing between the buyer and supplier, which may be

expensive.

#### E-catalogues

This is a digital or online version of a catalogue- a document that details what you can buy and at what price.

There are two main types - buy side catalogues and sell side catalogues. A buy-side catalogue is an internal system used by a buyer which hosts a list of pre-approved suppliers from whom purchases can be made. It may include details of commonly bought items and the prices. The use of this reduces maverick spending and ensures consistency in purchases (e.g. whenever lightbulbs need to be ordered, the same lightbulbs are ordered so the office lighting is consistent). A sell-side catalogue is provided by a supplier and details what they offer- it often includes prices, any discounts for bulk buying and may also let buyers know of availability (e.g. the website may say only two items remaining). This may be as simple as a price list on their website, available for anyone to view.

#### E-sourcing

This is a tool that helps a buyer find the most suitable supplier. Examples include e-tendering websites where a buyer can host a competition to find a supplier. E-auctions are also a type of e-sourcing tool. The tool (often a website) hosts all of the tendering documents and allows for buyers and suppliers to communicate during the tender process (for example if there are any clarifications needed on the specification). Using this tool allows for transparency and equal treatment, but also saves time in completing the tender exercise. PQQs can be automated and some e-sourcing tools include the use of Artificial Intelligence which can 'read' tender submissions and automatically exclude suppliers who do not fulfil the required criteria.

#### E-payment technologies

These are methods to pay for goods and services that replace the need for cash and cheques. Examples include online bank transfers, electronic Purchase Orders and Invoices and the use of Pre-Payment cards. These act like credit cards for employees to use when they need to buy supplies. For example, if you have a maintenance team that frequently need to purchase low-value items like screws and paint, you could issue the team with a Pre-Payment card with a certain limit (e.g. £500/ month) so they can buy what they need. The company will then automatically be sent a monthly invoice for all of the purchases. This saves time from having to issue the maintenance team with petty cash for the purchases and allows for greater visibility over spend (e.g. how many screws are typically bought per year?). Another typical use is for staff travel.

In conclusion, procurement teams benefit significantly from leveraging electronic tools, including e-requisitioning, e-catalogues, e-sourcing, and e-payment technologies. The adoption of these electronic tools brings about various advantages that enhance efficiency, transparency, cost-effectiveness, and overall effectiveness in the procurement process. Moreover E-procurement tools has helped develop the procurement function into a professional and respected function and allows for a more pro-active rather than reactive approach to purchasing.

#### Tutor Notes:

- Fun Fact! In the public sector, it is mandated that electronic systems are used in procurement (Public Contract Regulations 2015) as this helps to achieve the objectives of transparency and equal treatment. Where manual systems are used, it is easy to manipulate the tender process. For example, a buyer could read some tender submissions before the deadline for submission and no one would know, but with an electronic system this is impossible as it locks evaluators out until the deadline has passed and all bidders have submitted their responses. (note PCR 2015 is being replaced in 2024- details are still TBC but the above fun fact will still remain in the new legislation- they're definitely still going to make it compulsory).
- You could also mention the names of systems if you know any. For example, e-sourcing tools include MyTenders.com and Delta E-Sourcing. PO / Invoice systems include Sage, Xero and QuickBooks.
- The question doesn't ask for advantages of using these technologies but you could mention this in your answer. Just be sure that this isn't the focus of your response- the question asks specifically for you to DESCRIBE the systems so detailed Explanations and examples are where you will secure the most points.

- p.108

### NEW QUESTION # 26

It is important for an organisation to balance achieving Added Value and ensuring processes are compliant.

Explain the consequences of focusing on one area over the other and how an organisation can achieve both in its procurement activities (25 points).

#### Answer:

Explanation:

See the solution inExplanation partbelow.

Explanation:

How to approach this question.

- There's many aspects to this question - make sure you're answering them all:
- Explain what added value is and explain what 'ensuring processes are compliant' means (this could be your introduction) Added Value = achieving more for the same money. May be in producing an item cheaper, or by procuring additional features at no additional cost. Requires innovation and creativity. The focus is on the outcome. Compliant Processes - this is focusing on the process, rather than the outcome. Ensuring that purchases are made in line with internal and external rules/ procedures. This may be following Standard Operating Procedures, purchasing to strict budgets and the exclusive use of e-procurement tools.

- Explain the consequences of focusing on added value over compliance; can result in maverick spending, less visibility for management, may have additional risks if procuring items without following procedures - this may have legal and financial repercussions, Time-consuming, May lead to added expenses
- Consequences of focusing on compliance over added value; May foster a silo-mentality, Misses out on flexibility and agility, misses out on collaborative whole life costs reductions, Procurement function becomes rigid, inflexible and inwardly focused
- How both can be achieved; 1) Seek to add value only for certain purchases such as capital-expenditure items and not for others such as stationary. 2) Ensure time is well-spent i.e. focus on added value for purchases where this can be most achieved, and focus on compliance where there is high risks. 3) Review processes regularly to ensure both goals are being achieved 4) Complete 'lessons learned' activities after big procurement activities to advise on future procurement activities- were both Added Value and Compliance achieved? How could this be improved next time?
- these three should form the main body of your essay. Above are many ideas you could explore, you won't have time to talk about all of them so pick a couple that resonate with you Conclusion - the balance is important Example Essay Added value refers to the extra worth or enhancement a company provides to a product, service, or process that goes beyond the intrinsic value inherent in the initial input. It represents the additional benefits or features that make a product or service more desirable to customers, often justifying a higher price or distinguishing it from competitors. Procurement often look to achieve added value in procurement activities but achieving this whilst remaining compliant (adhering to established laws, regulations, standards, and internal policies) can be tricky. Achieving a delicate equilibrium between pursuing added value and ensuring stringent compliance in procurement activities is pivotal. This essay explores the consequences of emphasizing one area over the other and outlines strategies for organizations to successfully navigate the dual goals of attaining added value and maintaining compliance.

#### Consequences of Focusing Solely on Added Value:

Prioritizing added value without due consideration for compliance can expose an organization to a myriad of risks. One notable consequence is the potential compromise of regulatory requirements and legal standards.

For instance, if a procurement team is solely driven by obtaining cost-effective solutions or innovative products, they may inadvertently overlook compliance with industry-specific regulations, leading to legal ramifications and reputational damage. Moreover, an exclusive focus on added value may neglect crucial ethical considerations. An organization, in pursuit of cost savings or improved efficiency, might engage with suppliers that violate ethical standards or engage in unethical business practices such as modern day slavery. Such associations can tarnish the organization's reputation, eroding the trust of stakeholders and customers alike.

#### Consequences of Overemphasizing Compliance:

Conversely, a hyper-focus on compliance without adequate consideration for added value can result in missed opportunities and suboptimal outcomes. Strict adherence to procedural norms and regulations might lead to an overly bureaucratic procurement process, hindering innovation and stifling the organization's ability to adapt swiftly to market changes.

Furthermore, an excessive emphasis on compliance might limit engagement with suppliers, stifling creativity and potential breakthroughs. For instance, a procurement team rigidly adhering to compliance protocols might miss out on collaborating with smaller, innovative suppliers that could offer unique and value-added solutions.

#### Strategies for Achieving Both Added Value and Compliance:

To navigate the delicate balance between added value and compliance, organizations can adopt several strategic approaches. First and foremost, an organization should establish clear procurement policies and procedures that incorporate both compliance requirements and avenues for seeking added value. This ensures that all procurement activities align with regulatory standards while leaving room for innovation.

Effective supplier management plays a pivotal role in achieving this balance. By thoroughly vetting and categorizing suppliers based on their ability to deliver value and comply with regulations, organizations can strategically align their procurement activities. For example, suppliers that have a proven track record of compliance can be trusted with critical components, while those offering innovative solutions may be engaged for projects that prioritize added value.

Leveraging technology is another essential strategy. Implementing advanced procurement software that integrates compliance checks and offers analytics for value assessment can significantly enhance the efficiency of procurement processes. Automated systems can streamline due diligence, ensuring that suppliers meet compliance standards while providing insights into their potential to deliver added value.

Additionally, fostering a culture of collaboration within the procurement team and across organizational departments is crucial. Encouraging open communication enables different stakeholders to contribute insights on compliance and added value. Cross-functional collaboration ensures that procurement decisions align with broader organizational goals and values.

In conclusion, the strategic balancing act between achieving added value and ensuring compliance in procurement is indispensable for organizational success. By recognizing the consequences of favouring one area over the other and adopting a holistic approach, this safeguards against risks but also positions the organization for sustained growth and competitiveness in the ever-evolving business landscape.

#### Tutor Notes:

- Examples highlight that you understand the material you have studied and can apply it to real life scenarios.

You could take a certain industry or organisation and explain the consequences for them of focusing on one over the other. E.g. In the construction industry it is very important that organisations achieve compliance in their procurement activities. This includes ensuring there are robust contracts in place and that legislation such as CDM and Health and Safety is followed. When procuring a construction contract the danger of focusing on Added Value over compliance is that this may result in key legislation being forgotten

which leads to legal proceedings against the buyer. For example, if the buyer procures a construction contract without fulfilling the responsibilities outlined in the CDM and H&S regulations, this can result in huge fines for the company and potential jail time for senior management.

- The risk of focusing on compliance over added value may be in missing out on alternative proposals. For example, if a buyer is procuring a construction project of a new hospital and they focus too much on compliance, they may not engage in Early Supplier Involvement or cross-functional working which may bring up alternative ideas such as different ways the hospital could be built. The alternative ideas may result in higher quality or cost savings which are missed by the buyer. This results in a more costly, or lower-quality hospital being built.
- Overall, what CIPS are testing you on here is that you understand that the procurement department should aim to achieve both - it's a balancing act between compliance and added value and this could be viewed as a pendulum- it's important not to swing too heavily in one direction. That's actually a really good metaphor - feel free to use that in your conclusion!

- study guide p. 114

## NEW QUESTION # 27

What is a Code of Ethics? What should an Ethical Policy Contain? What measures can an organisation take if there is a breach of their Ethical Policy? (25 points)

### Answer:

Explanation:

See the solution inExplanation partbelow.

Explanation:

- Firstly give a short definition of Code of Ethics: a document that sets out moral principles or values about what is right and wrong.
- What an Ethical Policy should contain: Condition of workers, Environment, H+S, Discrimination, Gift / Bribery Policy, Whistleblowing, Confidentiality, Fair Dealings, Declaration of Conflict of Interests. You won't have time to go into depth on all of these, so pick a few where you want to give an example.
- Measures to take if there is a breach: depending on what the breach is and who breached it this could include: education/ training, sanctions, blacklisting, reporting to authorities, publicise the issue, use a performance improvement plan, issue warnings, dismissal.

### Example Essay:

A code of ethics is a formal document or set of principles that outlines the values, ethical standards, and expected conduct for individuals within an organization. It serves as a guide for employees and stakeholders, shaping their behaviour and decision-making to align with the organization's ethical framework. It may take the form of a Mission Statement, Core Values, Specific Guidelines or established reporting mechanisms. The purpose of the Code is to establish standards, promote integrity, mitigate risks and build trust- with both internal and external stakeholders.

A Code of Ethics may contain the following:

- Condition of workers - stating what the company will provide to the employees to make sure the environment is safe. This could include the physical environment but also hours worked, opportunities for breaks etc. Depending on the sector it could detail shift patterns, expectations regarding overtime and compensation.
- Environment - this section would discuss compliance with legislation regarding pollution, disposal of waste materials etc. Depending on the company's goals- they may have higher commitments to the environment than those imposed by the government. Additional commitments may include NetZero targets or the use of renewable sources of energy.
- H+S- Health and Safety. Ensuring that the working environment is free of hazards and that workers have the training and equipment they need to complete the work safely. E.g. PPE
- Discrimination- a promise not to discriminate based on any characteristic. Aligns with the Equalities Act.

Policy should include how the company would handle situations, for example if an employee reports an issue of discrimination or harassment. This may involve the use of a whistleblowing hotline or details on how to contact HR.

- Gift / Bribery Policy - this area of the code of conduct would explain whether the company allows staff members to receive gifts (e.g. from suppliers) and the processes to complete if they do (e.g. return the item, complete an internal document, donate the gift to charity). Different companies and industries will have different rules surrounding this, the Public Sector is much more likely to reject gifts from suppliers for example.
- Declaration of conflict of interests- this explains what staff should do if there is a conflict. For example if they are running a tender and their father owns one of the suppliers who is bidding for the work. The conflict of interest policy will explain what the person should do, how to report it and have mechanisms in place to ensure that nothing untoward could come of the situation. This may be having another member of staff mark the tender to ensure unbiasedness.

Measures to take in case of a breach

A response to a breach will depend on who breached the policy - whether this is an employee or a supplier. It will also depend on the severity of the breach.

Remedies for a supplier breach could include: education / training if the breach is minor. Supplier development if the relationship with the supplier is very important (for example if there are no other suppliers the buyer could turn to) and the breach is minor. If the

breach is major such as fraud or misappropriation of funds, a buyer could look to issue sanctions, claim damages and dismiss the supplier. There could be options to claim liquidated damages if this is included in the contract. For very serious offenses the buyer may blacklist the supplier- never use them ever again and could also report the issue to the police if the breach is also criminal (e.g. modern slavery or fraud).

Remedies for an employee breach could include: for minor breaches training may be required, particularly if it was a junior member of the team and it was an innocent mistake like forgetting to fill out a form when they received a gift. The employee could be carefully monitored and put on an Improvement Plan. If internal issues are found, such as several staff are breaching the Code of Ethics, senior management could look to review policies to make sure issues are being flagged and responded to in the best way. Employees who fail to follow the Ethical Policy, either through routinely failing to adhere to it or through a major breach could be dismissed from the organisation. There would need to be strong evidence of this.

In conclusion it is important for all organisations regardless of size of industry to have an Ethics Policy.

Sharing the code of ethics with staff is a fundamental step in embedding ethical principles into the organizational culture. Regular communication and training reinforce these principles, fostering a shared commitment to ethical behaviour across all levels of the organization.

#### Tutor Notes

- In an essay like this it's always a good example to use examples. They can be hypothetical - you don't have to know any company's Ethics policy off by heart. E.g. If a supplier breached a buyer's Ethical Policy by employing Child Labour in their factories, an appropriate measure for the buyer to take would be to cancel the contract and find another supplier. This is because not only is Child Labour illegal, the buyer will not want to be associated with this supplier as it will have negative repercussions on their image. The best response would therefore be to distance themselves from the supplier.
- Code of Ethics and an Ethics Policy are the same thing. Just different language. The terms can be used interchangeably
- Study guide p. 128

#### NEW QUESTION # 28

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