# Examiners' report

# P1 Professional Accountant June 2008



## Introduction and general comments

June 2008 was the second examination diet for paper P1 under ACCA's new syllabus. I am happy to report another diet in which many people successfully passed the paper with some people achieving excellent passes with a clear grasp of the subject matter. So congratulations to those successful candidates and their tutors.

As previously, the format of the paper was a compulsory Question 1 in section A for 50 marks followed by a choice of 2 from 3 questions in section B. All questions were based on case studies.

Candidates who performed well in the paper were those who, in addition to having a good understanding of the P1 subject matter, were able to bring two important other intellectual skills to bear on the examination.

First, it was important to correctly interpret the verb in the question and use that as the basis for their answers. This meant that if the question asked candidates to 'explain' or 'describe' and the answer just contained (say) a list of points, few marks were awarded. Similarly, where a question asked candidates for a higher level skill such as 'evaluate', 'assess',' construct' or 'criticise', answers that did not address the content at the level required were poorly rewarded. Candidates must not 'explain' when they are meant to 'construct' or 'criticise', and they must not 'identify' when they are meant to 'describe'.

Second, it was important to correctly analyse the case materials given in the exam paper, especially when specifically instructed to do so in the question. I will return to these themes in my question reviews below but as general points, these are worth emphasising at the outset. The exam questions contained numerous instructions to work with information from the case. For example:

Q1(a)(i) ... and identify from the case...

Q1 (c) ... using information from the case...

Q2(a) ... and describe three threats to auditor independence in the case

(Other types of wording are used to mean the same thing).

The important thing to realise is that if the question specifically asks for answers to be based on the case then marks will not be awarded for non case-based answers. This was a frequent cause of poor performance in the exam.

# Question 1

The rubric for the P1 paper was the same as for the pilot paper and for the December 07 paper. Section A thus contained a case study of about a page followed a number of requirements that sampled the syllabus so as to draw content from several areas of the study guide. The case study described a large civil engineering project ('the Giant Dam Project') that had a large environmental impact and also finance issues associated with the fact that some banks wanted to remain confidential as lenders. The case was designed to underpin several questions from across the P1 study guide.

Part (a) was about the stakeholders in R&M, the principal contractor building the Giant Dam. Part (a)(i) required candidates to define the terms 'stakeholder' and 'stakeholder claim' and then to identify four external stakeholders in R&M. Most candidates performed well on this although there was some confusion over internal and external (R&M's employees are not 'external' stakeholders). Part (a)(ii) was a little more ambitious as candidates were required to analyse the case to establish what each of the four identified stakeholders' claims were on R&M. What this meant was what each of the stakeholders wanted R&M to do in respect of the project. Candidates who performed well on this were able to point to what each stakeholder's objectives were for the



project. This meant, for example, that First Nation's claim was not that hydroelectric power represented 'misery and cruelty' but that they wanted to project to be discontinued.

Part (b) asked candidates to describe a framework to assess risks and to include a diagram as part of the answer. The correct answer was, of course, the intersecting continua of probability and impact. Markers allowed for a latitude of ways of expressing these variables, allowing, for example for terms such as 'likelihood' and 'hazard', both of which are completely correct terms. Some candidates incorrectly thought that this question might be referring to the Mendelow framework. The Mendelow map is a way of understanding the sources of influence of various stakeholders, not necessarily of risk assessment, although understanding the extent of influence and power of particular stakeholders may in some circumstances have some use in mitigating or avoiding some potential risks.

Part (c) invited candidates to use the risk assessment framework they had just described to actually assess three risks. The question specifically asked candidates to use 'information from the case' and to assess 'three risks to the Giant Dam Project'. Some candidates failed to address the specific risks in the case and described risks in more general terms, perhaps describing risks such as 'exchange rate risk', 'environmental risk' and 'reputation risk', which were not necessarily related to the case. The case contained three specific risks to the project with enough information to make an assessment of each. In order to gain maximum marks, therefore, candidates had to identify those three specific risks and, using information from the case, describe each one's impact and probability. Any other risks the candidates mentioned in their answers could not be assessed as there was no information in the case to do so.

It was thus crucial to adequately analyse the case. If a requirement asks candidates specifically to use information from the case as this one did, then they will not be awarded the best marks unless they do what the question requires.

Part (d) was a multi-part question containing professional marks for the drafting of a statement for Mr Markivnikoff to read out at the annual general meeting. All P1 papers will contain between 4 and 6 professional marks and candidates are well-advised to note that these can make the difference between a marginal fail and a pass. The time budget for 4 marks in a three hour paper is about 7 minutes and some of this time should have been spent on planning how to draft answers in line with the requirements of the question. In December 2007, professional marks were awarded for the drafting of a letter and in this paper, they were for the drafting of a formal statement.

If a senior company director were to address shareholders in a formal meeting, how would it sound? It would begin with a formal introduction, provide an overview of what he was going to cover and, as he spoke, the sections would be connected with narrative designed to make the speech sound convincing, logical and persuasive. It would, obviously, not contain bullet points (how would they be delivered in a speech?).

The actual content of Mr Markovnikoff's statement should have contained three elements, as set out in the three requirements of Q1(d). The majority of candidates were able to define and briefly explain what 'sustainable development' is although (incorrectly) some seemed to think that 'sustainability' referred to the continuance of R&M as a going concern!

Part (d) (ii) required an evaluation of the environmental and sustainability implication of the project. In one sense, the whole point of using a big civil engineering project as the basis for Q1 in this paper was to probe the environmental implication of such a project. In an evaluation, candidates are required to present both sides of the argument – explaining the environmental negatives and also the positives. Importantly, this question was about environmental and sustainability implications and therefore was not concerned with 'social' matters such as the fate of First Nation nor the unfortunate fate of the important archaeological sites.



Part (d) (iii), for 6 marks, invited candidates to wrestle with one of the conundrums raised by the situation of R&M in the case. Again, this involved applying prior learning to the case. It concerned two seemingly conflicting themes with relevance to the case: the duty of transparency and the importance of confidentiality in respect of the lenders.

In part (e), for 4 marks, candidates were invited to bring in prior learning on internal controls and to apply this to a particular situation when a sub-contractor carries out activities over which R&M would not have direct control. Whereas R&M could manage its own internal controls directly, sub-contractors may compromise the project's progress through having inadequate internal controls. Many candidates correctly picked up on issues such as the sub-contractors having different corporate cultures, structures and control regimes to R&M whilst others struggled to make any coherent points.

#### Question 2

This was a popular question for candidates. It concerned an ethical dilemma facing a recently qualified accountant. Part (a) asked candidates to explain the importance of auditor independence and then, using information from the case, to describe three threats to independence in the case. This task is a good example of the way that paper P1 links back to previous papers in the ACCA examination scheme, particularly F8. This task was performed well by many candidates.

Part (b) explored two themes related to professionalism and professional ethics. In the case, the recently qualified accountant faced a potential dilemma because both the client and her superior were putting pressure on her to ignore or overlook an irregular payment. Part (i) of part (b) was done reasonably well by many candidates but part (ii), which required candidates to explain the ethical tensions, was less well done.

All professionals, including professional accountants, face situations with ethical elements to them. Even when the decision has a regulatory or legal underpinning, as was the situation in the case, the professional still faces a choice to uphold the standards of the profession or to 'bend the rules' in the interests of an easier life in the short term. This was the nature of the ethical choice in this case.

Part (c) was challenging for some candidates. The terms absolutist/dogmatic and relativist/pragmatic are specifically highlighted in the study guide (section E1a) and so well-prepared candidates were fully aware of what the terms meant. In keeping with the nature of P1 questions, candidates were required to use and apply the theory rather than just repeat it. This is an important thing to note: candidates may be awarded *some* marks for explaining a theory but they will more often be expected to apply it to a case in some way (as in this case). Many candidates correctly recognised the links between absolutism and deontology and also between relativism and consequentialism.

# **Question 3**

This was the most popular question in section B with most candidates attempting it. The case describes a company with a number of poor practices in its corporate governance. In the first task, (part a), candidates were required to explain one of the key themes in corporate governance, agency, and then, using their knowledge of best practice, to criticise the company in the case. 'Criticise' is a level 3 verb (along with assess, evaluate, construct, etc.) because a certain amount of understanding is necessary before the criticism can be undertaken. There was plenty to criticise in the case and most candidates did well in this task.

Part (b) was done well by some but poorly by others. Where candidates weren't sure they often wrote what they thought might be the roles of a nominations committee. These were sometimes right but sometimes they confused the nominations committee with the roles of the HR department (appraisals, induction, etc.). The second part, typical of a P1 task, was to apply the knowledge to the case. This involved an assessment of how a nominations committee would be useful to the company in the case which does, of course, require a close study of the case.



There was some confusion over the meaning of the term 'retirement by rotation' which was asked for in part (c). Again, there was some evidence that candidates had not fully revised the whole syllabus for P1. The form of this question again shows the importance of not only knowing the whole of the P1 syllabus but also being prepared to apply the knowledge to the case.

## Question 4

This was the least well done question in section B. Although the case scenario mentioned Sarbanes Oxley, none of the tasks actually required a knowledge of Sarbanes Oxley. The first part (part a(i)) was well done on the whole, asking as it did for the essential features of a rules-based approach to corporate governance.

Part (a)(ii) was not so well done overall. The question required candidates to construct an argument in favour of applying a principles-based approach to developing countries. The question assumed that candidates were aware of the features of, and argument for, principles rather than rules. If candidates were not aware of these, then obviously it would be very hard to get a good mark. Then, candidates were required to consider these advantages in the specific context of developing economies and to construct an argument accordingly.

Similarly, many candidates were confused in answering part (c). The question asked candidates to 'describe the typical contents of an external report on internal controls' this being the nature of the content of section 404 of Sarbanes Oxley. This is not a uniquely Sarbanes Oxley issue, however as other codes have similar provisions. The question tended to be misinterpreted in two ways: that it was about external reporting in general (it wasn't) and it was about internal controls in general (it wasn't). This question highlights the importance of knowledge of the whole syllabus (this is from section B3b and C3d) and not just hoping that what has been revised will come up in the exam.

Part (c) was about external reporting requirements rather than about (as some candidates wrongly believed) principles based approaches in developing countries. One of the criticisms of rigid reporting requirements is that they are burdensome for smaller companies and this question sought to explore some of those issues.