

Examiner's report

P1 Professional Accountant

June 2010



General Comments

The June 2010 P1 paper was similar in 'feel' and level to all previous P1 papers and I am pleased, as with the previous diets, to report that many people passed the paper with some achieving exceptionally high marks. I am always gratified and pleased to see the hard work of students and tutors rewarded with pass marks and I congratulate all successful candidates.

Before discussing the questions in detail, I have two overall remarks to make. Firstly, I sadly must repeat comments made in previous examiner's reports about the four professional marks in Q1. Many candidates did not gain many professional marks in writing the statement required in Q1(d). Secondly, the ethical reasoning questions, Q2c and Q4c, were both done poorly overall. This suggests that candidates are less well prepared for these tasks than they might be. I will return to both of these points in my review of questions.

The format was the same as on previous P1 diets. In section A, question 1 was compulsory, worth a total of 50 marks and this was based on a longer case study. Candidates were then required to select two from the remaining three questions contained in section B of the paper. Each section B question was based on a shorter case and worth a total of 25 marks.

Specific Comments

Question One

This The section A case, underpinning the whole of question 1, was on a range of issues concerning a large nuclear complex on the coast of Ayland. The issues raised in the case were similar to those present in many such situations in a number of European countries and elsewhere where nuclear facilities are present. As in previous diets, question 1 covered a number of sections of the P1 study guide including content from the professional values and ethics section (section E).

Part (a) was about stakeholders. It contained three distinct tasks: to distinguish between voluntary and involuntary stakeholders, to identify the voluntary and involuntary stakeholders in Hesket Nuclear and finally to assess the claims of three of the involuntary stakeholders previously identified. The first task (distinguish) was done quite well in the majority of cases but after that, candidates often became confused over which stakeholders were in which 'camp'. The most prominent involuntary stakeholders were the governments of Beeland, Ceeland and the rare seals near the HN facility. A common mistake was to nominate the anti-nuclear group NNN as an involuntary stakeholder when it is obviously voluntary: it chose to engage with HN of its own free will.

Part (b) covered the roles of a trade union in corporate governance for the first time on a P1 paper. The question contained two tasks: to explain the roles and then to evaluate the contribution of FT, the trade union in the case, to the governance of HPC. This was one of the better questions in terms of candidate answers but the highest marks went to those able to show how FT had helped and challenged HPC using the evidence from the case. It was important to recognise that the union had been helpful to HPC in some respects but unhelpful in others.

Part (c) examined agency but introduced the important idea that agency relationships need not just be between directors and shareholders. In the case of HPC, the agency relationship was between the board of HPC and the government of Ayland. This meant that HPC had objectives other than profit maximisation because of the political objectives of its principal, the government. Most successful candidates achieved a pass mark on this part although others failed to see the difference between a government being the principal rather than shareholders.

Part (d) was the 'professional marks' component of question 1. It contained two tasks: the first about the importance of accurate risk assessment and the second about HN's social and environmental footprint. Common errors in (d)(i) were to explain what risk assessment is rather than its importance or to fail to link the answer



strongly enough with the case. Those achieving the highest marks were able to show, as the model answer shows, the links with the NNN assessment and the effects that this flawed assessment might have. In particular, this task was asking about the importance of accurate (as opposed to inaccurate and spurious) risk assessment.

Part (d)(ii) contained two tasks. Many candidates were able to explain 'social and environmental footprint' but fewer were able to do well on the second task which was a level 3 intellectual outcome: to construct a case. In this task, candidates were required to construct the argument in favour of the proposition that HN's social and environmental footprint is positive (i.e. to argue that it made a favourable social and environmental contribution). In order to be able to do this, candidates needed to know what such a footprint was and what it involved, and then to study the case for evidence to support the argument. The case study contained evidence on both the social footprint (about local jobs, energy and development abroad) and the environmental footprint (clean energy and very good safety/leakage record).

Despite my highlighting a poor 'professional marks' performance in previous examiner's reports, many candidates failed to approach the answer as required in order to gain all of these marks. In this case, the required format for the answer was a response statement for a website. This means it was NOT a letter or a report.

Question Two

This question was based on a scenario about the appointment of a new chief executive of Tomato Bank, George Woof, and a number of problems that arose with his appointment, his salary and his pension arrangements. Parts (a) and (b) were done quite well overall but part (c) was done poorly by most candidates. Question 2 was, nevertheless, the most popular and best-answered question in section B of this paper.

In part (a), candidates were required to study the case to find the points to criticise (a level 3 intellectual outcome) the Tomato Bank remuneration committee in agreeing Mr Woof's reward package. I was pleased to see that many candidates were able to do well on this question with case analysis skills being well demonstrated by successful candidates. On questions containing verbs such as 'criticise', careful analysis of the case is usually essential in preparing good answers.

There were two tasks in part (b): to describe the components of a reward package and then to explain why a more balanced package should have been used. The first task, largely bookwork, was done better than the second. The marks for the balanced package involved explaining, in context, about alignment with shareholders' interests, about past and future performance and similar points. There were ample points in the case to pick up on for these marks and careful study of the case was rewarded with higher marks than those who merely relied on 'lists' of points.

It was part (c), however, that was badly done by most candidates. Although Mr Woof was legally entitled to receive the pension value, the question specifically asked candidates about the ethical case. Mr Woof could have accepted a reduction in the value of his pension in recognition of his failure as CEO. This was done poorly by a majority of candidates thus somewhat underscoring the importance of developing ethical reasoning skills in preparation for P1 exams.

Question Three

This case scenario drew on recent changes to the COSO guidance from 2009. It describes some of the contents of the guidance (it was not necessary to know about it prior to the exam) and then introduces a conversation between two journalists. Conversations have been used before in P1 scenarios and they are used to explore differences of opinion over certain issues which then may be asked about in the requirements.

Part (a) contained two tasks. The first, to distinguish between rules and principles-based approaches to internal controls. This was quite well answered overall although some became confused in their answers with rules and principles-based approaches to corporate governance in general. The second task was more challenging which



was to discuss the benefits to an organisation of a principles-based approach. This 'to an organisation' was important as it placed a particular perspective on where the benefits were obtained..

In part (b) some less well-prepared candidates introduced a bullet list of 'purposes of internal control' from one or other of the study texts. This wasn't quite what the question was asking. In the context of the case, candidates were required, in response to Mr Rogalski's comment on industry specificity, to comment on the non-industry specific advantages (such as high quality reporting, efficient operations, compliance, etc.).

The COSO guidance used the term 'unmonitored controls tend to deteriorate over time' and the second part of (b) required candidates to explain what this meant. Most candidates who attempted this were able to provide something here but others seemed unprepared to explain a phrase that they had perhaps not encountered before despite it being an important theme in internal control.

Part (c) drew upon another part of the COSO advice. Again, the COSO advice was simply used to introduce a notion that should have been familiar to a well-prepared P1 candidate as it was on internal audit. The first task on defining internal audit testing was done well by many candidates but the second task less so.

Question Four

This question was on insider-dominated (family) businesses, professionalism and ethical behaviour. The case described a situation about a small but established family business, their auditor and the son of the couple whose business it was. There was evidence that the son, Ivan, had stolen inventory from his parents' business and the auditor, Mr Shreeves, had become aware of it.

Part (a) invited candidates to explain the differences between a family business and a public company. In particular, this was about governance. It drew on content that should have been familiar to candidates that had carefully studied the study texts and many candidates were able to gain some marks for this distinction.

There were two tasks in part (b). The first was seemingly more challenging than the second. The second task was to describe the fundamental principles of professionalism and most well-prepared candidates were able to do this. Fewer were able to explain the position of professionals in society and the importance of the public interest to a professional like Mr Shreeves.

Part (c) was done poorly overall. As with Q2(c), this part required candidates to bring their ethical reasoning skills to bear on a problem. Mr Shreeves faced a dilemma on how to approach the issue of Ivan with Ken and Steffi Potter. There were a number of professional and ethical issues that were relevant to his decision and it was a discussion of these that was required. More detailed preparation for ethical reasoning tasks would have benefited candidates and this should represent a challenge to tutors and future P1 candidates.