

# Examiner's approach

## Paper P1



Paper P1, *Professional Accountant* is a new compulsory paper in the Essentials module at the Professional level of the ACCA Qualification. It is an exciting, challenging, and innovative paper that aims to enrich students' understanding of a number of important issues as they prepare to take their place as members of the professional accounting community.

Following in-depth consultation on the development of the new ACCA Qualification and guidance on ethics and governance teaching from IFAC and others, it was decided to create a new paper – Professional Accountant – to examine a number of areas relevant to the broad themes of professionalism, responsibility, accountability, and ethics. In terms of syllabus content, these themes are handled in the context of corporate governance, internal control, risk, and professional and business ethics. These areas form the basis of the new Paper P1 syllabus.

Content from a number of other parts of the new ACCA Qualification is relevant to the Paper P1 syllabus (refer to the 'linked papers' diagram in the *Syllabus*). Most obviously, it forms a prominent part of the qualification's emphasis on ethics. Professionalism and ethics are both at the heart of the new ACCA Qualification. They are covered in 11 of the 16 exam papers – including all papers at Professional level – and three of the Essentials performance objectives as part of the practical experience requirement. Underpinning the syllabus and the practical experience is the Professional Ethics module. The aim of the Professional Ethics module is to give students exposure to a range of ethical perspectives and can be completed once eligible to take Paper P1. Ideally, the Professional Ethics module should be taken at the same time as – or soon after – completing Paper P1. In addition, the Paper P1 syllabus builds on and develops content studied previously in Paper F1, *Accountant in Business* and Paper F8, *Audit and Assurance*.

It is important to study an ACCA-approved textbook for Paper P1. They are written especially for the syllabus, and are reviewed by the examiner, making them invaluable in terms of coverage and insight into what is examinable. The syllabus for Paper P1, possibly more than any of the other papers, is eclectic in nature and draws on material from a number of different disciplines. Students are strongly encouraged to read around the subject area, especially those students new to the content of the syllabus. A number of recommended books are listed at the end of the *Study Guide*.

### **Syllabus and relational diagram**

Although the syllabus contains five areas (refer to the 'relational diagram' in the *Syllabus*), it is important to understand that all of these, taken together, comprise a logical 'whole'. All areas are interconnected and, in total, the syllabus represents a set of issues essential to the understanding of how accounting – especially in a business context – contributes to, and is underpinned by, governance and ethics. Although these have always been important to the accountancy profession, a number of well-publicised recent corporate failures and scandals have highlighted the need for sound governance and ethical behaviour. Society invests a great deal of trust in its professions and it is crucial that accounting professionals repay that trust and maintain the level of respect and regard in which they have been traditionally held. Accordingly, accountants need to be aware of their responsibilities to investors, to society, and to the highest standards of professional probity and competence. The content of the Paper P1 syllabus will help students explore and develop these themes.

Part A of the syllabus focuses on corporate governance, responsibility, and accountability. This means exploring aspects of, for example, the agency relationship between directors and shareholders, the meaning of governance, the role and types of directors, issues of responsibility, and the meaning and limits of accountability. It aims to introduce these important themes while also encouraging students to think about the ethical assumptions made by accountants collectively as a profession.

The next three parts of the syllabus – B, C and D – focus specifically on issues that have, in recent corporate failures, been the most problematic. These include internal control, the identification and assessment of risk, and controlling and mitigating risk. The Paper P1 syllabus singles these out for separate consideration because,

although they are integral to corporate governance as a whole, they play a crucial part in an accountant's responsibility to act in the public interest and in the interests of shareholders.

Sound systems of internal analysis, control, and audit underpin all effective corporate governance systems. Effective management at the strategic level rests on the assumption that internal activities can be controlled, verified, and reported on internally. If management loses control of internal systems and procedures, any claim of sound governance is lost – as was the case at Baring's Bank, when a single uncontrolled trader lost large amounts of money on derivatives markets. The same is true of risk. Being aware of all possible risks, understanding their potential impact, as well as the probability of occurrence, are important safeguards for investors and other stakeholders.

All of these preceding sections are underpinned by Paper P1's important consideration of both professional and business ethics – Part E of the syllabus.

Ethical assumptions underpin and 'surround' any profession and system of governance. The accountancy profession, just as in medicine or law, is governed by certain ethical frameworks that inform practice and guide practitioners. This part of the Paper P1 syllabus explores some of these assumptions, while also looking at some of the ethical theories that help to explain them. This part of the syllabus will always be assessed to some degree in the compulsory section of the exam but not necessarily exclusively in that section.

### **Study Guide and intellectual levels**

The *Study Guide*, which breaks the syllabus down into separate sections, is on the ACCA website. The superscript numbers at the end of each objective in the *Study Guide* indicate the level at which students should understand a particular subject or topic area. These levels of understanding, known as cognitive levels, are important as they indicate the depth to which each part of the syllabus may be examined.

Because Paper P1 is at the Professional level, the higher cognitive challenges – represented by the number 3 – are prominent. This means that this paper is more likely to use higher levels of questioning; whereas level 1 tasks might concern knowledge and comprehension (such as 'list', 'define', 'identify', 'calculate'), levels 2 and 3 are more challenging. Level 2 tasks concern application and analysis ('contrast', 'explain', 'discuss', and so on), and level 3 tasks concern synthesis and evaluation. Level 3 requirements might therefore include 'construct', 'evaluate', 'assess', 'formulate', or 'advise'.

It is likely that each Paper P1 exam will contain several questions at levels 2 and 3, and the *Study Guide* reflects this emphasis on higher cognitive levels. It is important to realise that if *Study Guide* sections require learning at levels 2 or 3, then it is possible that the exam will test that area at that cognitive level. The marking scheme will reflect this, and answers that do not attempt to answer at the higher cognitive level will be rewarded accordingly. If, therefore, a question asks a candidate to 'assess' or 'evaluate' an argument or a statement, answers that merely 'describe' will not be well rewarded.

### **Ethical and governance codes**

Paper P1 covers two areas that, in some countries, are underpinned by 'codes' or 'guidelines' that attempt to regulate practice. In the light of recent corporate governance failures, governments and professional bodies have introduced these codes so as to reduce the 'freedom of movement' for managers, and to make their duties and responsibilities unambiguous in certain circumstances. The UK was among the first to introduce such initiatives, with the Cadbury Code back in 1992, but the intervening years have seen many other codes springing up in different parts of the world. Some apply to single jurisdictions, such as in Singapore, the UK, and the US, while other codes are intended to apply internationally. IFAC's and ACCA's Codes of Ethics are examples of ethical

codes, while the Organisation for Economic Co-operation and Development (OECD) and International Corporate Governance Network (ICGN) both have international codes of corporate governance.

In the Paper P1 *Study Guide*, I have highlighted the fact that whereas a general knowledge of codes is important, line-by-line detail is not required. While the UK codes (such as the Combined Code, first published in 2003) provide a good summary of provisions in corporate governance, other countries and agencies have also produced equivalent guidelines. Students may be required to demonstrate familiarity with a code when answering a question, but it will be acceptable to refer to a local code if more appropriate, or to one of the international codes. ACCA's Code of Ethics applies broadly, and IFAC's Code of Ethics applies to all professional accountants whose professional bodies are members of IFAC (such as ACCA). If students live in a jurisdiction with its own code of ethics (such as the ICPAS code in Singapore), it will be acceptable to refer to that code where appropriate.

Explicit reference is made in the *Study Guide* to Sarbanes–Oxley, which is the legal underpinning of corporate governance in the US. Sarbanes–Oxley is the most influential corporate governance instrument of recent times and has changed practice globally, mainly because of the international dominance of US business.

### **Exam format**

The exam will contain two sections. Section A will contain Question 1, which will be worth a total of 50 marks and which will be compulsory. It will be based on a case study scenario of several hundred words. The requirements will include several distinct tasks (listed as (a), (b), (c), etc) and will sample the syllabus quite broadly. Question 1 might contain elements of governance, risk, internal control, and will include some aspect of ethics.

One of the features of the Professional level exam papers is the awarding of 'professional marks'. These are marks allocated not for the content of an answer, but for the degree of professionalism with which certain parts of the answer are presented. They will usually be awarded in Section A (the compulsory part of the exam paper) and will total 4 to 6 marks. It may be, for example, that one requirement asks you to present your answer in the form of, say, a letter, a presentation, a memo, a report, briefing notes, or similar. Some marks may be awarded for the form of the answer in addition to the content of the answer. This might be for the structure, content, style and layout, or the logical flow of arguments in your answer. You should assume that if the question asks for a specific format of answer that some marks may be awarded for an effective presentation of that format.

Section B will contain three questions (Questions 2, 3 and 4) and students will be invited to attempt two from the three questions set. Each question in Section B will, accordingly, be worth a total of 25 marks. In contrast to Question 1, it is likely that the questions in Section B will explore one part of the syllabus in a little more depth. Students should not assume, however, that each question in Section 2 will examine only one part of the syllabus. It is more likely that each will contain an emphasis on one part of the syllabus, while including content from other parts as well. All of the three questions in Section B will be based on a short scenario.

The *Pilot Paper*, which is on the ACCA website, is an illustration of the way the future papers will look and feel. In addition to the *Pilot Paper* – which students will want to study in some depth and eventually attempt – additional pilot questions will also be published.

### **David Campbell is examiner for Paper P1**