

Examiner's report

P1 Governance, Risk and Ethics
June 2016

The ACCA logo consists of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black square.

General Comments

The examination consisted of two sections. Section A contained one question for 50 marks and section B contained three questions of 25 marks each from which candidates had to answer two questions.

P1 questions are based on case scenarios and those candidates who studied the information in the case and applied it suitably in their answer were well rewarded. There is a temptation for candidates to use bookwork type answers and reproduce remembered notes and candidates taking this approach are unlikely to score good marks. There is sometimes a temptation to spend more time answering the questions and requirements that candidates are happier with but candidates need to answer all of the questions on the paper to receive a passing mark and so good time management is important.

Question One

The case scenario in Q1 was centred on the development of a former factory site. The local government were keen to develop the site and had offered the local university the chance to buy it at a favourable rate. The two parties bought the land as co-owners and formed a company in order to build the new development which the local government hoped would create jobs and enhance the city's reputation. In order to attract the right businesses on the site there was a need to knock down a number of blocks of poor quality social housing and to take funding from other services. The requirements for the question were based around the needs of the various stakeholders impacted by the development and the obligations of local government authorities in serving the needs of local taxpayers who fund its work and also the people who use its services.

Part (a) (i) was worth nine marks and contained two tasks: to analyse the claim for three specific stakeholders identified in the question and then to plot these stakeholders using the Mendelow matrix. A stakeholder claim is the need/want of the stakeholder and so candidates needed to state this using the evidence in the scenario and many candidates were able to do this.

Many candidates recognised that the Mendelow matrix plotted the interest and power (influence) of the stakeholder but many failed to explain why they had plotted the stakeholder in this position and failed to gain as many marks.

Part (a) (ii) was worth four marks and required an explanation on how two of the stakeholders identified in Q1a (i) could attempt to increase their power and those candidates that attempted this part of the question and gave sensible suggestions were well rewarded.

Part (b) was worth ten marks and asked candidates to evaluate the development in terms of its contribution to the public interest. Many candidates were good at using the case to find the relevant points for evaluation and considered both the arguments for and against the public interest and were well rewarded.

Part (c) was worth eight marks and contained two tasks: to explain the role of accountant's in society and to criticise the finance director in the case in her assessment of the development. In both parts of the question many candidates focused on the code of ethics that would apply to

professional accountants and failed to relate the role to public interest and dealing fairly with all parties. They also failed to understand that the accountant's role in society is largely one of working for and defending the public interest and did not gain as many marks.

Part (d) contained two requirements and was to be written in the form of a statement. The four professional marks were awarded for flow, tone, persuasiveness and structure of the statement. These should be straightforward marks for a well prepared candidate who has rehearsed the different communication types that can be examined in P1. Evidence on this paper is that candidates are not clear how a statement should be structured and many candidates gave the answer in the form of a letter. Candidates would be well advised to remind themselves of the communication types and the correct ways of structuring each requirement type.

Part (d) (i) was worth six marks and required candidates to explain transparency and fairness and their importance in public sector governance. Most candidates managed the bookwork explanations but failed to gain marks on the importance in public sector. For transparency this is about being informed on key local decisions so as its legitimacy is not called into question. For fairness it is recognising the many stakeholders that the government owes a duty to and balancing the interests of the different stakeholders.

Part (d) (ii) was worth nine marks and required candidates to analyse the complexities of performance measurement for public sector organisations and an explanation of how the 3 Es model could be used for this purpose. Many candidates did not address the complexities and answers lacked sufficient content to obtain all of the marks available.

Question Two

The case scenario was based on an ACCA qualified accountant acting as a director of a medium – sized consultancy company. After discussions with the managing director it was agreed that as part of his continuous professional development (CPD) he would attend a conference on an area of business activity that the company was keen to develop.

The accountant only attended the opening session of the conference deciding that he already knew all of its content and that his time would be better spent working on a forthcoming major assignment. His managing director did not agree with this action and asked him to attend the conference as planned. The accountant still decided to leave after the morning break. One of the conference organisers recognised that on both days of the conference the accountant had signed in and then proceeded to leave. The conference organiser approached the accountant and although was given the explanation about it being a waste of his time the organiser decided that his absence should be reported.

Part (a) was worth ten marks and asked the candidates to do two tasks. The first was to evaluate the benefits of CPD to the accountant in the case scenario. Many candidates gave a bookwork answer around the general benefits of CPD and did not apply their answer to the case scenario and failed to gain as many marks. The second task was to describe the features of effective CPD. Candidates describing any sensible features were given credit and many students were well rewarded for their answers.

Part (b) was worth eight marks and asked the candidates to do two tasks. The first was to describe Kohlberg's conventional level reasoning and many candidates performed well on this part of the task. Many candidates discussed all of Kohlberg's levels in their answer demonstrating poor time management as the question clearly stated that only conventional level should be discussed. The second task required candidates to justify (using conventional level theory) the conference organiser's decision to report the accountant's absence. Many candidates applied the theory to the managing director and not the conference organiser and failed to gain any marks. Candidates should read the question carefully to ensure they answer the question being asked.

Part (c) was worth seven marks and required candidates to evaluate the accountant's actions at the conference against the ethical principles that should guide his behaviour as a professional accountant. Many candidates failed to appreciate that for the seven marks allocated to this part of the question they were not going to be required to discuss all of the principles and so fell into the temptation of spending more time on this than the seven marks indicated. Candidates gained good marks but could have managed their time better.

Question Three

The case scenario was based on a newly appointed head of internal audit who had worked for the company for ten years and who had forged good personal relationships within the company and with the external auditors. As head of internal audit he reported to the audit committee and the case scenario gave some information about the NED who chaired the audit committee. The first internal audit was to investigate reports of thefts from the warehouse. The warehouse being managed by a close friend of the head of internal audit. The investigation report identified no significant control breaches or material losses and so was accepted by the audit committee without question.

Part (a) was worth eight marks and contained three tasks. The first task was bookwork and asked candidates to discuss the meaning of independence with many candidates performing well on this part of the question. The second task was again bookwork and required a discussion of the problems associated with a lack of independence. Many candidates discussed threats to independence rather than the issues with a lack of independence. Candidates who discussed issues around failure to report control breaches, ignoring unethical practices and accepting explanations without investigation were well rewarded. The third task was to assess any threats to the head of internal audit's independence. Those candidates who engaged with the case and evidenced their answer obtained good marks.

Part (b) was worth nine marks and contained two tasks. The first task being answered better than the second overall. The first task was bookwork and required candidates to describe the principal roles of the audit committee with many candidates obtaining all of the marks for this part of the question. The second task was to explore the relationship of the audit committee with the internal auditors. Candidates who answered in context and used the case evidence to explore the relationship were well rewarded.

Part (c) was worth eight marks and asked for an assessment of the performance of the chair of the audit committee both as a NED and in his role as chairman. Many candidates stated what he should/could do rather than assessing his actual performance and did not gain as many marks.

Question Four

The case scenario was based on a group of coffee producers. The case scenario gave information about the local labour force, the volatility of the income streams and the importance of the weather in governing the size of the harvest.

Part (a) was worth eight marks and contained two tasks. The first was a bookwork task and required candidates to explain related and correlated risks and candidates performed well on this task. The second task was to discuss how environmental and liquidity risk in the context of the case were negatively correlated. The evidence for the answer was clearly stated in the case scenario and candidates who answered in context were well rewarded.

Part (b) was worth eight marks and contained three tasks. The first task was to discuss the sector specific nature of risk in the production and sale of coffee commodities. Many candidates discussed general business risks and failed to relate their answer to the production and sale of coffee. Candidates who discussed the risk type and how it affects coffee were well rewarded. The second and third tasks were related and required the candidate to explain the meaning of ALARP and how it could be applied to the two main risks in the case scenario [those risks being environmental and liquidity from part (a)]. Many candidates performed well on the meaning of ALARP but then failed to apply it to the risks in the case and failed to gain as many marks. Those candidates who gave sensible points regarding the management of the risks and the acceptance of residual value were well rewarded.

Part (c) was worth ten marks and required candidates to describe how risk management could be embedded into the culture, systems and procedures of the company in the scenario in order to improve business management and sustain its competitiveness. Many candidates delivered a bookwork answer on how to embed risk management and did not relate the answer to business management and competitiveness. Many answers lacked sufficient application to obtain all of the marks available.