



Examiner's report

P1 Governance, Risk & Ethics

December 2015

General Comments

As always, I warmly congratulate all successful candidates and their tutors. I know how much candidates have to study to pass P1 and I know how hard it can be for some candidates, so it is great to see so many passing.

One or two general remarks before we consider the main questions. Some candidates did not complete the whole paper, leaving some questions unanswered. Second, there were limited attempts to respond to the professional marks in question 1(d). The question in 1(d), asked candidates to write an article for the magazine, *Investors in companies*, written by Susan Konstantis. Some candidates made little attempt to write the article and others wrote from their own perspectives, signing it in their own name. This made it difficult to award marks for the professional marks in some cases.

Question One

The case in question 1 was about Aqubi. It is involved in mining and minerals processing, and to some, it is considered by some to be a 'dirty company' because of its performance after it has completed mineworkings. With a mixed reputation, Aqubi is often spoken of favourably and sometimes unfavourably.

Question 1 (a) concerned two tier boards and. Some candidates defined the terms one-tier and two-tier, but then made little progress on discussing the disadvantages of a two-tier board to Aqubi's shareholders. A common response was to discuss the advantages and disadvantages of two-tier boards, but then make little progress on the other parts of the question.

Part (b) was related to diversity and diversity targets on boards. A common response was to define the term 'diversity' but then to make less progress on the difficulties which Aquubi might encounter. In fact the case mentions several issues, including the fact that it is in an outlying region, and is in an area of relatively homogeneous ethnicity. The case also mentions that it has had trouble recruiting to the board, all of which make for difficulty with meeting the diversity target.

Part (c) was concerned with the roles of Aqubi's risk committee and about strategies to manage the risks faced. Most candidates made a good attempt at mentioning the roles of the risk committee (risk identification, keeping a risk register, assessing risk, reporting on risks, monitoring risk, devising risk strategies, etc.). The choice of the risk accept strategy (it was a reputational and environmental risk) was less well dealt with, with answers often being descriptive of the situation rather than dealing with the issues. There were, however, some excellent answers to this question, so I do not want to portray a negative impression of this question.

Part (d) contained two parts, and it was meant to be written in form of an article, by Susan Konstantis for the magazine *Investors in companies*. Part (d) contained two challenges. Part (i) asked about one-year contracts, which have just been introduced by some stock exchanges as listing rules. It asked for a critical evaluation of this proposal. Most were able to define one-year contracts for directors, but fewer were able to critically evaluate the proposal, although there were some excellent answers to this part.

Part (ii) was concerned with the 'comply or explain', principle. Some candidates explained what a 'comply or explain' statement was in terms of principles-based jurisdictions, but fewer were able to form a meaningful assessment of the company or explain statement included in the case.

Four professional marks were offered for the form of the answer in part (d). The modal answer was probably 2 out of 4 for, which was disappointing.



Question Two

This question had a case concerning Plantex, which was a large pharmaceuticals company. The company was considering reporting under the integrated reporting framework, which the case went on to describe.

Part (a) was about corporate citizenship. This has been examined before in P1 papers and it is important to explain that citizenship involves having rights and responsibilities, in the same way that humans do. It was common to recognise that (rights and responsibilities) but some candidates struggled to assess the rights and responsibilities of Plantex as corporate citizen of society in terms of its specific rights and responsibilities given its situation as described in the case scenario.

Part (b) asked about the differing opinions about integrated reporting. The second part asked about how Rachel Tang and Stanley Broadway might fit on the Gray, Owen and Adams continuum. Weaker answers commented on integrated reporting, and then failed to discuss the Gray, Owen and Adams positioning. But there were some excellent answers to this question, so it is not my role to comment negatively on this as there were many excellent answers.

There were two parts in part (c). The theory behind the integrated reporting initiative is to make strategy, risk and other material information evident in the annual report, and this is thought to the advantage of shareholders because it provides material information upon which investors can choose investments. There were some excellent answers to this part, but some missed it out completely (not answering it) whilst others seemed not to know much about this, or seemed to sketch out some details.

The second part of part (c) was about the six capitals in integrated reporting. There were some very strong answers, where candidates discussed the meaning of each type of capital. Others listed the capitals, whilst sketching what could be remembered about each capital. These answers were less well-rewarded.

Question Three

The case in question 3 was about the National Broadcasting Organisation and Blanko plc. The NBO had developed a system called DCS which was destined to modernise production and add to efficiency.

Because the NBO was exposed to technology risk, the first part (part a) was about technology risk and how such risk can vary with environmental changes. Many candidates were able to describe technology risk, but the second part (on the dynamic risk) was generally done well with some excellent answers and others less so. It is important to recognise that the risk profile that company faces will vary with changing environment, and as the environment changes, so does the risk profile change accordingly.

Part (b) concerned other risks, that the team operating DCS might face, and secondly how these might be controlled. The commonest response was to list other risks (reputation risk, financial risk, strategic risk, etc.) and markers tended to allow risks and allocate marks accordingly. But the second part was less well done, and was sometimes not attempted.

Part (c) asked about how a digital technology development had been mismanaged and how such mismanagement might have been avoided. Candidates seemed to struggle a bit with this one, often using information not from the case to comment on this. Some candidates did not attempt this part at all.

Question Four



The question concerned MRA, which was shortlisted for a valuable contract for the development of a coastal defence for another country. It mentions that business activity in the defence industry had been slow. So the order would be very welcome to MRA.

This was an ethical question, and all of the question parts stressed these emphases in what they were asking. Overall, this question was quite well done, but with some variation between answers on part (b). This means that some were excellent and others were less so.

The two parts of part (a) was quiet well done overall. Most candidates could explain the two ethical perspectives but the second part, to explain the significance of individual or personal differences in guiding ethical behaviour under each approach. This second task was less well-done, but some answers answered the question fully, but others answered with less certainty.

The second part was about deontology and teleology, and it also asked about which of the approaches had been adopted by the main people in the case. This was done better than part (a) with many being able to demonstrate their understanding of the difference between the two theories. The second part on applying this knowledge to the ethical attitudes of the individuals involved was done less well.

Part (b) also contained two parts about bribery and corruption and how they could undermine confidence and trust in MRA. Bribery and corruption is always a serious trust issue, and can erode trust, from shareholders and customers. So it is always very serious in terms of corporate governance. Weaker answers discussed the meaning of the terms but failed to develop the themes of undermining trust. But there were some very good answers to this, also.

Part (b)(ii) was less well done overall, and it was sometimes left unanswered. It seems that some candidates sometimes didn't understand what the question was asking candidates to do. The best practice measures for dealing with bribery and corruption is covered in the P1 study guide (E5e) and this emphasises the importance of studying the whole study guide.