



# Examiner's report

## P1 Governance, Risk & Ethics

### June 2017

#### Introduction

The overall performance of candidates in this paper was good and it provided the opportunity for the well prepared candidate to score well.

#### General Comments

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

It was pleasing to see the improved performance of candidates in general in Section A but unfortunately this improvement was somewhat offset by a weaker performance in the Section B questions. There was evidence on some scripts of optional questions being started and then abandoned in favour of a different optional question. This clearly indicates a lack of planning. Future candidates would be well advised to remember that this is a Professional Level paper and as such they should think carefully about which two optional questions they are going to attempt. It is much better to spend five minutes carefully assessing which two of the three questions you can answer the best, rather than diving in to the first question you think you like, spending ten minutes writing an answer before realising you cannot answer part b or that you may have missed the point of the question. Most Section B questions have three parts and as a general rule of thumb candidates will score more marks by making a reasonable attempt at all three parts of one question rather than writing reams on two parts of a question but missing one part out. The Section B questions are challenging but candidates could have scored more points if they had asked themselves two questions. Firstly, have I answered the question set rather than the question I would like to be set? Inevitably in exams candidates will have learnt information which they will not be asked to reproduce. This is frustrating but no marks are gained and time is wasted by writing factually correct but irrelevant information. The second question is have I applied information from the case to my answer rather than just provide generic answers? Generally  $\frac{1}{2}$  mark or 1 mark will be available for a generic point but an additional mark will be available for application.

Planning is an essential skill needed to maximise marks in this exam and like all skills needs practice.

#### Question One

This was a typical P1 case study, this time concerning the funding of a health authority required to provide both primary and secondary health care. The health authority received a reduced health care budget from the government funding agency and was instructed to cut costs in a support service of its choice in order to balance its budget and avoid financial penalties. Inevitably when a specific service is cut, there are individuals who lose out and the case highlighted one such person and their families claim against the authority to reinstate the service. The case gave additional details on the compulsory reporting requirements the authority had to comply with in its report to the governmental funding agency.

Part (a) for 6 marks required the discussion of the contrasting needs of the patient and tax payer in the funding decision. This was generally well answered with most candidates correctly noting that the taxpayers were also the patients which created the issue of taxpayers wanting to pay less tax whilst patients wanted more high quality services for free.

Part (b) for 8 marks required candidates to construct a Mendelow matrix showing the position of three prominent stakeholders and to justify their relative positions. A surprising number of candidates gave a detailed explanation of the Mendelow matrix, which was not required, but did not draw the diagram. Many candidates also missed marks by not justifying the relative position of the stakeholders.

Part (c) required a discussion of two contrasting ethical approaches and the critical appraisal of a belief held by a character in the case. This was on the whole well answered with many candidates scoring most of the 8 marks on offer.

Part (d) was again well answered with many candidates scoring the majority of the 6 marks available for explaining the advantages to various stakeholders of the health authority reporting to the funding agency.

Part (e) was the typical final requirement of Section A requiring a letter from the management of the health authority to its stakeholders to be published on the website. Four professional marks were available for flow, tone, persuasiveness and structure. Most candidates scored marks for flow and structure but to gain the marks for tone and persuasiveness candidates should ensure that they understand the audience and write their response appropriately. This had to be directed to a wide range of stakeholders, not just a particular character in the case, and had to tread the fine line of recognising the difficulties a policy had caused to some whilst at the same time justifying its continuing existence.

Part (e) i 6 marks were available for the justification of the budget priority established by the health authority. This was generally well answered.

Part (e) ii required an explanation of how the authority managed its resources and performance using the 3Es model. Many candidates scored half of the 6 marks available by producing generic descriptions of the 3Es and would have scored more if they had then applied these descriptions to a health authority.

Part (e) iii The final part again for 6 marks required a description of the characteristics of the information in the report from the authority to the government funding agency. Once again many candidates simply produced a generic list, often using ACCURATE, without any application to the case. Future candidates should take note that they should always be looking to apply information in the case to their answers.

## **Question 2**

The first optional question in Section B concerned a fund manager looking to review and strengthen her investment portfolio. In particular, the case refers to difficulties the fund manager had in comparing the prospects of companies in different countries which operate under different governance systems.

Part (a) 12 marks were available for a discussion on the features of a specified governance system that allowed the fund manager to make sound investment decisions and an explanation why voluntary disclosure is particularly useful in assisting the investment decision. Many candidates listed correct features but often missed out on gaining additional marks by not going on to say why that particular feature would enable the fund manager to make a sound decision.

Part (b) required an explanation of how diversification could help the fund manager spread the financial risk within her multinational portfolio for 4 marks. Many candidates explained diversification and financial risk but in doing so missed the key part of the question as they often did not explain how diversification could help.

The case then introduced the International Corporate Governance Network (ICGN) report aimed at harmonising good corporate governance practice by enhancing communication between the institutional investors and the boards of companies.

Part (c) required a discussion as to why the principles described in the ICGN report should be followed for 5 marks. This was not particularly well answered with many not attempting it which would suggest the ICGN report

had not been covered in their studies. The better candidates described the benefits of increased dialogue between the investors and the board and then scored highly.

Part (cii) 4 marks were available for describing the limitations of a specified governance system intended to apply to multiple worldwide jurisdictions. Weaker candidates simply noted the general disadvantages of this system with no reference to worldwide jurisdictions. Future candidates are advised to ensure they fully read the question to ensure their answer is accordingly tailored.

### **Question 3**

This was the least popular of the three optional questions and concerned a health food manufacturer which manufactures and sells a new environmentally friendly branded product. The company donated a proportion of its proceeds from the sale of this branded product to research and was keen to stress its environmental credentials by stating that it had published audited integrated reports for the past three years and that the new product was having a positive impact on its environmental footprint.

Part (a) i for 8 marks required candidates to explain and evaluate the concepts of CSR strategy and strategic CSR in relation to this company and the new product. Weaker candidates could not differentiate between the two but the well prepared candidates fared better although few could relate both to the scenario to gain full marks.

Part (a) ii required candidates to apply the Gray, Owen & Adam social responsibility classification to the scenario for 4 marks. A disappointing minority of candidates that attempted this optional question did not attempt this part which was for 4 marks. Of those that did attempt it a significant minority incorrectly assumed that it must be deep ecologist as it was an environmentally friendly product.

Part (b) required an explanation of the nature of social and environmental audits and an evaluation of their contribution to the integrated reports published by the company in the case. Many candidates made a reasonable attempt at the nature of social and environmental audits but few evaluated how these reports could aid integrated reports. This part was worth 7 marks.

Part (c) The final part of this question for 6 marks required an assessment of the environmental impacts which the brand could have on the company's environmental footprint and environmental reporting. This was not well answered with many candidates wasting time giving detailed generic explanations of environmental footprint and environmental reporting without answering the question in providing an assessment of the impact the brand could have. Future candidates should note that very few marks are ever available for generic explanations in this paper and you should always be looking to apply details of the case to the answer.

### **Question 4**

The final optional question of this diet concerned a state owned energy company licensed to operate three nuclear reactors. One of these reactors suffered a meltdown, resulting in radiation contaminated water being released into the environment and the government forced to import expensive energy following the immediate shut down of all three reactors for safety reasons. The energy company established some initial controls and is now under pressure from the government to restart the two remaining reactors whilst at the same time facing strong public opposition to not restart the reactors until safety concerns are fully understood and addressed.

Part (a) 9 marks were available for a discussion of the nature of specified influences on the energy company to restart the reactors. The better candidates clearly explained the opposing forces and linked their answer to the requirement of restarting the remaining reactors. Weaker candidates tended to produce vague answers with no mention of restarting the reactors.

Part (b) required an evaluation of the effectiveness of the initial internal controls established by the company immediately after the reactor meltdown for 6 marks. This was generally well answered but a significant minority of candidates wasted time by suggesting controls the company should adopt which was not required. Once again candidates are reminded to ensure they answer the question set rather than the question they would like to answer.

Part (c) for 10 marks required a discussion on risk management, including an explanation of the concepts of impact and probability in the context of the accident. The responsibilities of the board in risk management was well answered but many candidates applied the concepts of impact and probability and produced a detailed TARA explanation, which again was not required, as opposed to explaining the concepts.