

ACCA



Examiner reviewed content

PAPER P1

公司治理、风险管理及职业操守

GOVERNANCE, RISK AND ETHICS

BPP Learning Media 著

课 本
STUDY TEXT

FOR EXAMS IN 2012



华中科技大学出版社

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- We **discuss** the **best strategies** for studying for ACCA exams
- We **highlight** the **most important elements** in the syllabus and the **key skills** you will need
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FOR EXAMS IN 2012



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P1（课本）简介

本课本教你在行使会计师职能时如何运用相关知识、技巧和判断力。我们的课本设计注重大纲的重要部分，包括：

- 公司治理和责任
- 内部控制和检查
- 风险的辨识和评估
- 风险控制
- 职业价值和职业道德

P1 课本经由考官审核，包含学员应当了解的所有 P1 相关内容。课本解释了公司治理和职业道德等关键内容背后的理论支持，并论证了这些理论是如何用于实践的。课本给出大量实例说明风险组织的表象，同时还介绍了企业是如何应对各种社会责任的，这也是考官认为非常重要的内容。

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The PER alert

Before you can qualify as an ACCA member, you do not only have to pass all your exams but also fulfil a three year **practical experience requirement** (PER). To help you to recognise areas of the syllabus that you might be able to apply in the workplace to achieve different performance objectives, we have introduced the '**PER alert**' feature. You will find this feature throughout the Study Text to remind you that what you are **learning to pass** your ACCA exams is **equally useful to the fulfilment of the PER requirement**.

Tackling studying

Studying can be a daunting prospect, particularly when you have lots of other commitments. The **different features** of the text, the **purposes** of which are explained fully on the **Chapter features** page, will help you whilst studying and improve your chances of **exam success**.

Developing exam awareness

Our Texts are completely **focused** on helping you pass your exam.

Our advice on **Studying P1** outlines the **content** of the paper, the **necessary skills** the examiner expects you to demonstrate and any **brought forward knowledge** you are expected to have.

Exam focus points are included within the chapters to highlight when and how specific topics were examined, or how they might be examined in the future.

Using the Syllabus and Study Guide

You can find the syllabus and Study Guide on pages xvii and xx of this Study Text

Testing what you can do

Testing yourself helps you develop the skills you need to pass the exam and also confirms that you can recall what you have learnt.

We include **Questions** – lots of them - both within chapters and in the **Exam Question Bank**, as well as **Quick Quizzes** at the end of each chapter to test your knowledge of the chapter content.

Chapter features

Each chapter contains a number of helpful features to guide you through each topic.

Topic list

Topic list	Syllabus reference

What you will be studying in this chapter and the relevant section numbers, together the ACCA syllabus references.

Introduction

Puts the chapter content in the context of the syllabus as a whole.

Study Guide

Links the chapter content with ACCA guidance.

Exam Guide

Highlights how examinable the chapter content is likely to be and the ways in which it could be examined.

Knowledge brought forward from earlier studies

What you are assumed to know from previous studies/exams.

FAST FORWARD

Summarises the content of main chapter headings, allowing you to preview and review each section easily.

Examples

Demonstrate how to apply key knowledge and techniques.

Key terms

Definitions of important concepts that can often earn you easy marks in exams.

Exam focus points

When and how specific topics were examined, or how they may be examined in the future.

Formula to learn

Formulae that are not given in the exam but which have to be learnt.



Gives you a useful indication of syllabus areas that closely relate to performance objectives in your Practical Experience Requirement (PER).



Question

Gives you essential practice of techniques covered in the chapter.



Case Study

Real world examples of theories and techniques.

Chapter Roundup

A full list of the Fast Forwards included in the chapter, providing an easy source of review.

Quick Quiz

A quick test of your knowledge of the main topics in the chapter.

Exam Question Bank

Found at the back of the Study Text with more comprehensive chapter questions. Cross referenced for easy navigation.

Studying P1

The **P1 Governance, Risk and Ethics** syllabus (up until 2010 called Professional Accountant) has been written with a different focus to the exams that you have sat so far. The exam is not about learning law, accounting standards or complicated calculation techniques. Instead it seeks to promote the underlying themes of **professionalism and accountability**. You cannot be professional in one area and unprofessional in another.

The examiner

The examiner of P1 is David Campbell, an academic at the University of Newcastle in the UK. He sees knowledge of governance concepts and ethical standpoints as foundations for the accountancy profession acting in the best interests not just of its clients or employers, but other stakeholders as well. He has emphasised it is vital for the profession to maintain the respect and trust in which it is held. David Campbell is also keen to explore wider social responsibility issues.

He has highlighted the paper's focus being at strategic level, looking at board management issues, and also the underlying environment and culture factors that impact upon the management of an organisation and how well its risks are addressed.

David Campbell does expect students not only to know the theories but apply them as well. He has stressed that the paper will test higher skills.

1 What P1 is about

1.1 Underlying themes

The syllabus shows how accounting is **underpinned by governance and ethics**, and the need for accountants to **repay the trust** that society puts in them. A key element of governance is the concept of **accountability**, particularly of directors and auditors. The examiner has emphasised the **agency relationship** between stakeholders and business managers, including directors and accountants. Governance is itself supported by **sound internal control systems, internal audit and rigorous risk management**. **Judgement**, underpinned by professional competence and ethics, is also a key theme. Lastly the examiner wants students to consider carefully the concept of **professionalism**, and to discuss how the accountant should contribute to society.

The examiner has stressed that the paper's main themes should be seen as interconnected: "Every right implies a responsibility; for each opportunity there is an obligation and all rewards carry related risks."

1.2 Governance and responsibility

Chapter 1 demonstrates the importance of the underlying themes of the syllabus. Corporate governance is a central part of the syllabus. Instead of going straight into the detailed requirements of the corporate governance reports, it discusses in detail the **concepts** that underpin good corporate governance, the agency relationship, the **constituencies** (shareholders and other stakeholders) that corporate governance is designed to serve and the **extent of responsibilities** towards different stakeholders.

Chapter 2 deals with the basis of corporate governance legislation and codes, whether they are based on **principles or a detailed rulebook** and how governance codes incorporate wider ideas of social responsibility. **Chapter 3** covers governance best practice, drawing on examples from different codes from all over the world.

1.3 Internal control and risk

We consider Sections B to D of the syllabus together in Section B of this book. The examiner has explained that the syllabus highlights the issues of:

- **Internal control**
- **The identification and assessment of risk**
- **Controlling and mitigating risk**

as they have proved to be problematic in recent corporate failures. These issues also play a crucial part in an accountant's responsibility to act in the public interest and 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 control 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... 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 shareholders.'

In **Chapter 4** therefore we examine the objectives of control and risk management systems. We also look at systems that have been developed internationally, including the COSO enterprise risk management model.

Chapter 5 to 8 are organised around the stages identified in the COSO enterprise risk management model. Chapter 5 deals with the underlying factors that affect how a business is controlled and how risk is managed. These include how much **appetite** the business has for risk, and how **environmental factors** within the business affect control and risk management. We also look at the importance of **setting business objectives** that are consistent with the risk that directors, shareholders and other stakeholders wish the business to bear.

Chapters 6 and 7 deal with the various stages of **risk assessment and management**, including internal control procedures that act to reduce risk.

Chapter 8 brings out two other elements that are vital in control systems. These are a two-way flow of **appropriate information** between the board and managers and staff. This should enable the board and managers to carry out effective **monitoring** of operations, and provide feedback so that systems and controls can be improved. The results of business monitoring will also form the basis for external reporting about the company's systems.

1.4 Professional values and ethics

This section of the syllabus requires you to think carefully about the ethical assumptions that guide individual behaviour and underpin the role of accountants. **Chapter 9** is a very important chapter in this text, dealing with the **ethical stances** of individuals and also the **factors** that determine the ethical decisions individuals take. In the exam you may have to argue from a specific ethical position, even if you don't agree with the position.

In **Chapter 10** you need to **look critically** at the ethical codes accountants follow as well as the codes that businesses operate. It is true that you need to have a good knowledge of what the accountancy profession's codes say on **ethical threats and conflicts** and to be able to use that knowledge in recommending solutions to ethical dilemmas. However you are also expected to question how much help the codes actually are in resolving dilemmas and whether the ethical frameworks are in the best interests of society and the accountancy profession. The examiner wishes you to **question the role of the accountant** in protecting shareholder wealth and focusing on the performance of capital investment. Does this mean that accountancy is a servant of capital and makes the implicit assumptions about morality that capitalism does?

Chapter 11 looks at **corporate social responsibility**, concentrating on what organisations have done to address issues such as **sustainability** and the implications for accounting, disclosure, control systems and audit.

2 Skills you have to demonstrate

2.1 Knowledge and application

Even with exams you've previously taken, you'll remember that passing didn't only mean reproducing knowledge. You also had to **apply** what you knew. At Professional level, the balance is tilted much more towards application. You will need a sound basis of technical knowledge. The exams will detect whether

you have the necessary knowledge. However you won't pass if you just spend your time acquiring knowledge. Developing application skills is vital.

2.2 Application skills

What application skills do you need? Many P1 questions will include detail in a scenario about a specific organisation. The following skills are particularly important when you're dealing with question scenarios.

- (a) **Identifying the most important features** of the organisation and the organisation's environment. Clues to these will be scattered throughout the scenario. The technical knowledge that you have should help you do this, but you will also need business awareness and imagination. There will be a main theme running through most scenarios that you'll need to identify.
- (b) **Using analysis techniques** that will give you more insight into the data that you're given.
- (c) **Selecting real-life examples** that are relevant to the scenario. The examiner has stated that students should look at contemporary business stories and try to identify P1 issues, for example directors' remuneration.
- (d) **Making informed judgements** that follow from your analysis about what the organisation is doing and should be doing.
- (e) **Communicating clearly and concisely** your analysis and recommendations. Perhaps you will be reporting to a specific individual. If so, you should take into account the needs of this individual.

3 How to pass

3.1 Study the whole syllabus

You need to be comfortable with **all areas of the syllabus**. Compulsory Question 1 will always span a number of syllabus areas and other questions may do so as well. In particular you must have a very good knowledge and awareness of the themes in the ethical section of the syllabus, since the examiner has stated that compulsory Question 1 will always include an element on ethics.

The examiner has also stressed that study and revision should cover the entire syllabus in detail. Students should not question spot or prioritise one area of the syllabus over another. The examiner has identified in his examiner's reports topics which students who question spotted clearly believed would not be examined, but unfortunately were.

3.2 Focus on themes, not lists

There are quite a number of lists in the texts. This is inevitable because corporate governance guidance quoted as best practice is often in list form. Lists are also sometimes the clearest way of presenting information. However the examiner has stressed that passing the exam is not a matter of learning and reproducing lists. Good answers will have to **focus on the details in the scenario** and **bring out the underlying themes** that relate to the scenario. The points in them will have more depth than a series of single-line bullet points.

3.3 Read around

Wider reading will help you understand the main issues businesses face. Reading the business pages of newspapers will highlight key business risks organisations face and topical corporate governance issues. General news pages may cover significant ethical and corporate responsibility issues. Have a look as well at websites of organisations promoting social responsibility such as CERES.

3.4 Lots of question practice

You can **develop application skills** by attempting questions in the Exam Question Bank and later on in the BPP Learning Media Practice and Revision Kit.

4 Answering questions

4.1 Analysing question requirements

It's particularly important to **consider the question requirements carefully** to make sure you understand exactly what the question is asking, and whether each question part has to be answered in the **context of the scenario** or is more general. You also need to be sure that you understand all the **tasks** that the question is asking you to perform.

Remember that every word will be important. If for example you are asked to:

'Explain the importance of identifying all risks that Company X is facing', then you would explain that:

- Taking risks is bound up with strategic decision-making
- Some risks may have serious consequences
- Identifying all risks means they can be prioritised and managed efficiently and effectively

You would **NOT** identify all the risks that Company X would be facing.

4.2 Understanding the question verbs

Important!

In the report for the first P1 exam, the examiner highlighted lack of understanding of the requirements of question verbs as the most serious weakness in many candidates' scripts. The examiner will use the question verbs very deliberately to signal what he requires.

Verbs that are likely to be frequently used in this exam are listed below, together with their intellectual levels and guidance on their meaning.

Intellectual level		
1	Define	Give the meaning of
1	Explain	Make clear
1	Identify	Recognise or select
1	Describe	Give the key features
2	Distinguish	Define two different terms, viewpoints or concepts on the basis of the differences between them
2	Compare and contrast	Explain the similarities and differences between two different terms, viewpoints or concepts
2	Contrast	Explain the differences between two different terms, viewpoints or concepts
2	Analyse	Give reasons for the current situation or what has happened
3	Assess	Determine the strengths/weaknesses/ importance/ significance/ability to contribute
3	Examine	Critically review in detail
3	Discuss	Examine by using arguments for and against
3	Explore	Examine or discuss in a wide-ranging manner
3	Criticise	Present the weaknesses of/problems with the actions taken or viewpoint expressed, supported by evidence
3	Evaluate/critically evaluate	Determine the value of in the light of the arguments for and against (critically evaluate means weighting the answer towards criticisms/arguments against)
3	Construct the case	Present the arguments in favour or against, supported by evidence
3	Recommend	Advise the appropriate actions to pursue in terms the recipient will understand

A lower level verb such as define will require a more **descriptive answer**. A higher level verb such as evaluate will require a more **applied, critical answer**. The examiner has stressed that **higher-level requirements and verbs** will be most significant in this paper, for example critically evaluating a statement and arguing for or against a given idea or position. The examiner is looking to set questions that provide evidence of student understanding.

Certain verbs have given students particular problems.

(a) **Identify and explain**

Although these verbs are both Level 1, the examiner sees them as requiring different things. You have to go into more depth if you are asked to **explain** than if you are asked to **identify**. An explanation means giving more detail about the problem or factor identified, normally meaning that you have to indicate **why** it's significant. If you were asked to:

- (i) **Identify the main problem with the same person acting as chief executive and chairman**
– you would briefly say excessive power is exercised by one person.
- (ii) **Explain the main problem with the same person acting as chief executive and chairman**
– you would say excessive power is exercised by one person and then go on to say it would mean that the same person was running the board and the company. As the board is meant to monitor the chief executive, it can't do this effectively if the chief executive is running the board. Also you may be asked to explain or describe something complex, abstract or philosophical in nature.

(b) **Evaluate**

Evaluate is a verb that the examiner uses frequently. Its meaning may be different from the way that you have seen it used in other exams. The examiner expects to see arguments for **and** against, or pros **and** cons for what you are asked to evaluate.

Thus for example if a question asked you to:

'Evaluate the contribution made by non-executive directors to good corporate governance in companies'

you would not only have to write about the factors that help non-executive directors make a worthwhile contribution (independent viewpoint, experience of other industries). You would also have to discuss the factors that limit or undermine the contribution non-executive directors make (lack of time, putting pressure on board unity).

If the examiner asks you to critically evaluate, you will have to consider both viewpoints. However you will concentrate on the view that you are asked to critically evaluate, as the mark scheme will be weighted towards that view.

4.3 Analysing question scenarios

When reading through the scenario you need to think widely about how the scenario relates to the underlying themes of the syllabus, and also important content from whatever areas of the syllabus the question covers:

(a) **Corporate governance**

In questions on **corporate governance**, you are likely to be looking out for **weaknesses** in the current arrangements and trying to **recommend improvements** that are line with governance best practice.

(b) **Control systems**

With **control systems** questions, you are most likely to be interested in the **design and appropriateness of the control systems**, whether there are **obvious shortcomings** with them, and also **details of the control environment**.

(c) **Culture**

If you are asked about the organisation's **culture and ethos**, you should be looking for evidence of directors' views and actions, for signs of how the tone is being set at the top of the organisation. You should also look for evidence of how the ethos is being established further down the

organisation, in particular how the organisation's **culture, systems, procedures, reward mechanisms, human resource policies, training** are used to embed the tone of the organisation.

(d) **Risks**

With **risks** you are looking for the **most significant risks**. If these are not highlighted, you should look for the risks that are **connected with the organisation's strategy** or which **relate to significant changes** that the organisation and its business environment are going through, or are about to go through. You should also try to determine the extent to which **risk awareness is embedded** in the **organisation's culture**.

(e) **Risk management**

If you are asked how organisations should **respond to particular risks**, you'll need to use the scenario detail to determine how serious these risks are, and suggest **responses** that are **relevant to counter the risks** and are **appropriate for the organisation**. It's no use for example suggesting that the organisation sets up a large risk management function if it is not big enough to warrant one.

(f) **Ethics**

With **ethical issues** you are not just looking to determine not only the **ethical issues at stake**. You also need to consider the **ethical position of the organisation** and individuals and the **factors that determine the ethical position**. These will be significant when you think about solutions to the ethical problems.

(g) **Framework**

Look out in any question scenarios or frameworks for hints that you may have to provide a critique of the **overall framework or model** that is being operated. If you're basing your answer on content from corporate governance or ethical codes, will you have to criticise the principles or rules on which they are founded. If you have to make recommendations that benefit shareholders, is the shareholders' viewpoint the most valid or should other stakeholders' interests be taken into account.

4.4 Consider the moral and ethical frameworks

The examiner has stressed that these will affect the judgements you make when answering questions as they do in real-life. In particular the stakeholders **affected by business and strategic decisions** and whether some stakeholders are being favoured over others need to be considered.

Remember the exam is designed to make you take a questioning approach to wide issues, and this may mean having to argue in favour of a viewpoint with which you don't agree.

4.5 Content of answers

Well-judged, clear recommendations grounded in the scenario will always score well as markers for this paper have a wide remit to reward good answers. You need to be **selective**. As we've said, lists of points memorised from texts and reproduced without any thought won't score well.

Important!

The examiner identified lack of application skills as a serious weakness in many student answers. What constitutes good application will vary question by question but is likely to include:

- Only including technical knowledge that is **relevant** to the scenario. For example, although the SPAMSOAP mnemonic can be a useful memory aid, you shouldn't quote it in full just because the question requirements contain the word 'control'
- Only including scenario details that **support the points** you are making, for example quoting from the scenario to explain why you're making a particular recommendation
- **Tackling the problems** highlighted in the scenario and the question requirements
- Explaining **why** the factors you're discussing are significant
- Taking a **top-down strategic approach** – remember that at Professional level you're meant to be adopting the viewpoint of a partner or finance director. Excessive detail about operations is not important

5 Gaining professional marks

As P1 is a Professional level paper, 4 or 5 **professional level marks** will be awarded in the compulsory question. The examiner has stated that some marks may be available for presenting your answer in the form of a letter, presentation, memo, report, briefing notes, management reporting, narrative or press statement. You may also be able to obtain marks for the layout, logical flow and presentation of your answer. You should also make sure that you provide the points required by the question.

Important!

Whatever the form of communication requested, you will **not** gain professional marks if you fail to follow the basics of good communication. Keep an eye on your **spelling and grammar**. Also think carefully, am I saying things that are **appropriate in a business communication**?

5.1 Structure and format

5.1.1 Reports

A report should have the following formal elements at the top:

- Title
- Report writer (prepared by)
- Report recipient
- Date

It should include:

- An introduction summarising its scope, terms of reference and the information used
- Findings/points made, in sections with headings. The points should be specific and factual.
- Recommendations/conclusions at the end

Reports should be written in the first person (I, we, our).

If the report is going into the annual accounts, remember it can be read by anyone who wants to read it, so the information to be given needs to be thought about carefully.

5.1.2 Memorandum

A memorandum should have the following elements at the top:

- To
- From
- Date
- Subject

Its recipient should be referred to as you.

A memorandum is less formal than a report. However the points it makes should be emphasised by paragraph headings.

A memorandum should finish with a conclusion or recommendation. You should **not** end it with yours faithfully.

5.1.3 Letter

A letter should include at the top:

- The address of the sender
- The date it is written
- If to a single recipient, the **right** recipient's name and address

It should have:

- An **introductory paragraph**, explaining the reasons why the letter is written
- A **clear and logical flow**. When planning your answer, you should be looking to order the paragraphs so that they follow a logical sequence (for example order of importance or timescale)
- **Content and tone** that is appropriate to the audience. It should be written in the first and second person (ie using I, we, our, you, your). It should refer to the recipients and their interests. You will need to explain things in more detail to recipients who are not accountants. Single-line bullet points won't be enough. You also should avoid using unnecessarily complex terminology. Quoting indiscriminately from accounting standards or governance codes **will not** earn professional marks
- A **concluding paragraph**, re-emphasising the purpose of the letter, drawing the threads of the content together and, if appropriate, inviting further action by the recipients (eg please get in touch if you would like further information).

If it is a business letter, addressed formally (Dear Sir), it should be signed Yours faithfully, signing off with the person's role and position.

5.1.4 Speech or statement at meeting

A speech should:

- Be easy to read out. If you answer any questions requiring speeches **during your revision** you should read your answer to yourself to see whether you say it easily (Do **NOT** however, read your answer aloud in the actual exam!)
- Begin with a formal introduction, for example Welcome Ladies and Gentlemen
- Provide an overview of what will be covered
- Connect each section with narrative designed to make it sound convincing, logical and persuasive
- **Not** contain bullet points (how would you deliver them)
- End with an invitation to respond: 'Thank you for listening. I now open the floor to questions'.

5.1.5 Briefing notes

These may be required for use at a board meeting or to inform external stakeholders such as institutional shareholders. They should:

- Start with the key points, with background information later on or in appendices
- Be written in the third person, referring to the directors or the company'
- Make points succinctly, using short paragraphs and highlighting key points with headers. However the notes should be written grammatically

5.1.6 Press or website statement

The statement should have:

- A first paragraph that emphasises the key points
- Background information later in the statement or in appendices
- A clear explanation of the situation the company wants to clarify, or the case the board wish to make
- A third person narrator

5.1.7 Management narratives in annual report

The narrative should have:

- A first paragraph that clearly introduces the purpose of the statement
- A narrative that clearly supports this purpose
- A clear structure, with separate points being distinguished
- A third person narrator

5.1.8 Article in newspaper or magazine

The article should be clearly focussed on the issues to be discussed and designed to attract the reader's attention by the use of paragraph 'headlines'. The article must be tailored to the readership of the publication, explaining (or maybe better not using) terms they are unlikely to know. Generally articles should have short sentences and avoid the use of the passive. The article may not necessarily be unbiased. The question requirements may ask you to use the article to promote an argument or viewpoint, and the article would then have to be slanted in that direction.

5.1.9 All documents – conclusion

A good way to end all documents is to invite further communication. For example in a letter or memo, finish with a short paragraph such as:

"If you have any further questions or queries, please do not hesitate to contact me."

5.2 Logical flow

For the first few sittings of the exam, the scenario and question requirements have included clear requirements about the contents of the written communication. You should follow the guidance the question provides, creating a new section for each element that you are required to include. Clear headings will demonstrate the flow to the reader.

5.3 Persuasiveness

Before you start writing, consider the recipient of the document. If you are writing to shareholders, you will want to be careful how much information you provide, and how you phrase it. If you are trying to convince the reader that you have made the right decision, you will need to focus on the benefits. If you are apologising for something that has gone wrong, you will need to do this in such a way that the readers are reassured by the information they receive. The document will appear much more convincing if your answer clearly links to the requirements of the question.

5.4 Tone

Whatever the document required, the tone needs to be formal. You should avoid the use of slang or colloquialisms. However you also need to remember the audience for whom you are writing. You should clearly explain any business terms that you have to use that you think the recipients may not understand, and avoid using unnecessary jargon that requires explanation, since this can obscure your narrative.

Another important aspect of tone is that it should reflect the objective of the statement. If for example the document is a response to a disaster, your answer should include an apology and avoid light-hearted comments. A demand for improvement, for example shareholders writing to communicate their dissatisfaction with the performance of the chairman, should be written in a polite but firm manner. The recipient should be left in no doubt of the need for action.

5.5 Clarity

Your work will be clearer if you follow the presentation points discussed in 5.1. Clarity also applies to the content. The reader must be able to grasp the viewpoint you are putting forward. What you write must be clearly related to what you are asked to do. Irrelevant detail will obscure your message. Using terminology or jargon which your audience does not know and your answer does not need will make what you write less clear. It may be better to avoid using it rather than spend time explaining it.

6 Brought forward knowledge

You will have covered some of the corporate governance, company law and ethics contents of P1 in law and auditing papers that you have previously sat.