



EXPRESS Notes

ACCA Paper P1

Governance, Risk and Ethics

For exams in 2012



theexpgroup.com

Contents

	<i>About Express Notes</i>	3
1.	Some Key Things to DO at Paper P1	7
2.	Corporate Governance and Responsibility	10
3.	Risk Management and Internal Control	22
4.	Professional Values and Ethics	27

Visit www.theexpgroup.com
for free full set



START About ExPress Notes

We are very pleased that you have downloaded a copy of our ExPress notes for this paper. We expect that you are keen to get on with the job in hand, so we will keep the introduction brief.

First, we would like to draw your attention to the terms and conditions of usage. It's a condition of printing these notes that you agree to the terms and conditions of usage. These are available to view at www.theexpgroup.com. Essentially, we want to help people get through their exams. If you are a student for the ACCA exams and you are using these notes for yourself only, you will have no problems complying with our fair use policy.

You will however need to get our written permission in advance if you want to use these notes as part of a training programme that you are delivering.

WARNING! These notes are not designed to cover everything in the syllabus!

They are designed to help you assimilate and understand the most important areas for the exam as quickly as possible. If you study from these notes only, you will not have covered everything that is in the ACCA syllabus and study guide for this paper.

Components of an effective study system

On ExP classroom courses, we provide people with the following learning materials:

- The ExPress notes for that paper
- The ExP recommended course notes / essential text or the ExPedito classroom course notes where we have published our own course notes for that paper
- The ExP recommended exam kit for that paper.
- In addition, we will recommend a study text / complete text from one of the ACCA official publishers, but we do not necessarily give this as part of a classroom course, as we think that it can sometimes slow people down and reduce the time that they are able to spend practising past questions.

ExP classroom course students will also have access to various online support materials, including:

- The unique ExP & Me e-portal, which amongst other things allows "view again" of the classroom course that was actually attended.
- ExPand, our online learning tool and questions and answers database

Everybody in the World has free access to ACCA's own database of past exam questions, answers, syllabus, study guide and examiner's commentaries on past sittings. This can be an invaluable resource. You can find links to the most useful pages of the ACCA database that are relevant to your study on ExPand at www.theexpgroup.com.

How to get the most from these Express notes

For people on a classroom course, this is how we recommend that you use the suite of learning materials that we provide. This depends where you are in terms of your exam preparation for each paper.

Your stage in study for each paper	These Express notes	EXP recommended course notes, or EXPedite notes	EXP recommended exam kit	ACCA online past exams
Prior to study, e.g. deciding which optional papers to take	Skim through the Express notes to get a feel for what's in the syllabus, the "size" of the paper and how much it appeals to you.	Don't use yet	Don't use yet	Have a quick look at the two most recent real ACCA exam papers to get a feel for examiner's style.
At the start of the learning phase	Work through each chapter of the Express notes in detail before you then work through your course notes. Don't try to feel that you have to understand everything – just get an idea for what you are about to study. Don't make any annotations on the Express notes at this stage.	Work through in detail. Review each chapter after class at least once. Make sure that you understand each area reasonably well, but also make sure that you can recall key definitions, concepts, approaches to exam questions, mnemonics, etc.	Nobody passes an exam by what they have studied – we pass exams by being efficient in being able to prove what we know. In other words, you need to have effectively input the knowledge and be effective in the output of what you know. Exam practice is key to this. Try to do at least one past exam question on the learning phase for each major chapter.	Don't use at this stage.

Your stage in study for each paper	These Express notes	ExP recommended course notes, or ExPeditate notes	ExP recommended exam kit	ACCA online past exams
Practice phase	Work through the Express notes again, this time annotating to explain bits that you think are easy and be brave enough to cross out the bits that you are confident you'll remember without reviewing them.	Avoid reading through your notes again. Try to focus on doing past exam questions first and then go back to your course notes/ Express notes if there's something in an answer that you don't understand.	This is your most important tool at this stage. You should aim to have worked through and understood at least two or three questions on each major area of the syllabus. You pass real exams by passing mock exams. Don't be tempted to fall into "passive" revision at this stage (e.g. reading notes or listening to CDs). Passive revision tends to be a waste of time.	Download the two most recent real exam questions and answers. Read through the technical articles written by the examiner. Read through the two most recent examiner's reports in detail. Read through some other older ones. Try to see if there are any recurring criticisms he or she makes. You must avoid these!
The night before the real exam	Read through the Express notes in full. Highlight the bits that you think are important but you think you are most likely to forget.	Unless there are specific bits that you feel you must revise, avoid looking at your course notes. Give up on any areas that you still don't understand. It's too late now.	Don't touch it!	Do a final review of the two most recent examiner's reports for the paper you will be taking tomorrow.
At the door of the exam room before you go in.	Read quickly through the full set of Express notes, focusing on areas you've highlighted, key workings, approaches to exam questions, etc.	Avoid looking at them in detail, especially if the notes are very big. It will scare you.	Leave at home.	Leave at home.

Our Express notes fit into our portfolio of materials as follows:

Express Notes

Provide a base understanding of the most important areas of the syllabus only.



Expedite Notes

Provide a comprehensive coverage of the syllabus and accompany our face to face professional exam courses



Expert Notes

Provide detailed coverage of particular technical areas and are used on our Professional Development and Executive Programmes.

To maximise your chances of success in the exam we recommend you visit www.theexpgroup.com where you will be able to access additional free resources to help you in your studies.



START
About The EXP Group

Born with a desire to be the leading supplier of business training services, the ExP Group delivers courses through either one of its permanent centres or onsite at a variety of locations around the world. Our clients range from multinational household corporate names, through local companies to individuals furthering themselves through studying for one of the various professional exams or professional development courses.

As well as courses for ACCA and other professional qualifications, our portfolio of expertise covers all areas of financial training ranging from introductory financial awareness courses for non financial staff to high level corporate finance and banking courses for senior executives.

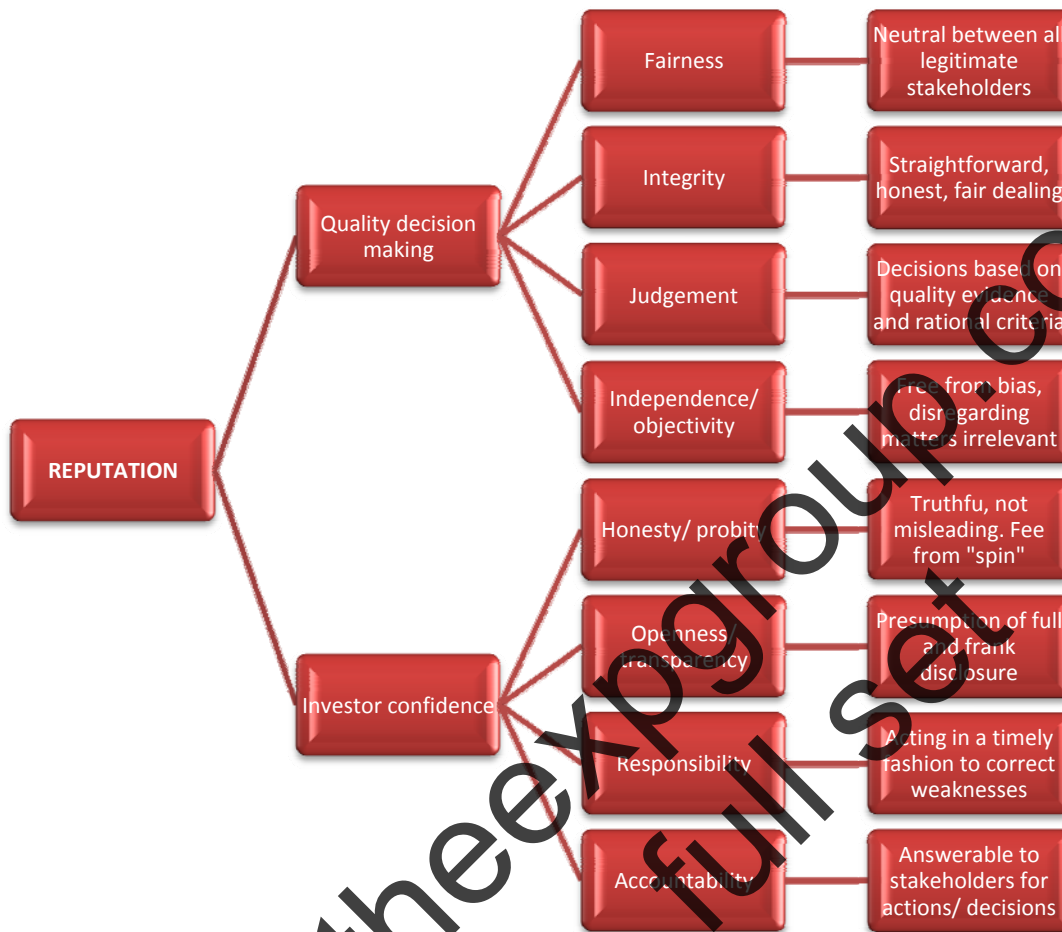
Our expert team has worked with many different audiences around the world ranging from graduate recruits through to senior board level positions.

Full details about us can be found at www.theexpgroup.com and for any specific enquiries please contact us at info@theexpgroup.com.

- Be prepared to feel a little “cheated” by the exam itself, as you will not get the opportunity to show off everything you have learned. It’s very hard not to show off what you know, but it wastes time and annoys the marker, if it’s not relevant.
 - Download the full text of the UK Corporate Governance Code (2010) from <http://www.frc.org.uk/corporate/ukcgcode.cfm>. It’s well written and brief. Reading the primary source document is less dull and academic than reading a text book.
 - Illustrate the relevance of your knowledge by reference to recent real business events, where they are relevant. This shows that you understand that the subject matter of P1 is evolving and relevant to real business.
 - Watch the requirements of each question very carefully. If the examiner asks you to “argue the case for...” you will not get good marks by presenting a balanced case of arguments for and arguments against.
 - Write in full, but short, sentences. Avoid bullet point lists in the exam.
 - Present answers in the required format (eg letter, briefing notes, etc). You will lose gift marks if you use a different format to the one that the examiner wants.
 - Respect P1! It looks far less daunting than some other professional level papers, but it is worthy of time.
 - Practice writing answers in full, under exam conditions and exam time pressure. Remember that you pass exams by what you write and how you write it. Reading past answers won’t help you practice this core skill.
 - Consider taking a course in effective English if you feel that your business English isn’t good. A significant part of the professional marks are awarded for effective, businesslike communication.
- Get feedback on your sample answers. Possibly the most difficult part of passing P1 is knowing what the “target” is. It’s very hard to work this out without tutor feedback.
- Download all the past questions and answers from the ACCA website. Read them all through in full before the exam – it will help you think into the way the examiner thinks and writes and allow you to copy his style effectively in the exam room.
 - Download and read all the examiner’s reports from previous sittings.

- Keep calm! Paper P1 is a relatively easy paper to pass, if you're fairly clear about what the examiner is looking for.
- Book on an ExP course if you can possibly afford it.

Visit www.theexpgroup.com
for free full set



Fairness

This is a neutral attitude between stakeholders, having respect for rights and views of any other group with a legitimate interest.

Integrity

Honesty, fair dealing and truthfulness (IFAC definition)
High moral character

Judgment

Making decisions that will maximise organisation's prosperity, using evidence-based decision making to reach good decisions.

Independence (objectivity)

Objectivity is a state or quality that implies detachment, lack of bias, not influenced by personal feelings, prejudices or emotions.

Responsibility

This is the responsiveness to the need for corrective action. A director showing responsibility is one who is "taking ownership" of a problem in order to solve it.

Accountability

This is being answerable for the consequences of decisions and actions.

Probity

Probity means truthfulness and not misleading people. It is linked to openness.

Reputation

This is the view that other people have of the business. A strong reputation will contribute to share price and thus to shareholders' wealth.

Openness/ transparency

This is a default assumption that transparency is best.



KEY KNOWLEDGE

Agency Theory and Costs

Directors manage the business on behalf of the shareholders. This makes the directors agents of the shareholders (who are the principal). The shareholders in a large business cannot possibly have all the information available to the directors, for practical reasons and also commercial sensitivity (a rival company would buy shares to get information about competitors if full disclosure of all facts to principal were required).

This agency problem arises from the different self-interest of the principal (eg wants to minimise costs and risk) and the agent (eg wants to maximise their own remuneration) and the information asymmetry between them.

Examples of **agency costs** (costs that would not be incurred if the principal managed the business themselves directly):

- Directors' remuneration
- Internal audit department
- External audit fee.



KEY KNOWLEDGE

Transaction Cost Theory

Transaction cost theory explains why companies exist. If stakeholders in a company (eg customers) were to try to engage in the company's activities on their own, the costs would be prohibitive. So companies naturally grow as a means of reducing individuals' transaction costs. As companies grow, however, agency costs tend to arise.



KEY KNOWLEDGE
Stakeholders

Definition: Any person, group of people or entity that may be affected by the activities of an organisation. Each stakeholder has their own wishes (stakeholder claims) which are often in conflict with the wishes of other stakeholders. This is stakeholder conflict.

Johnson & Scholes classify different types of stakeholder using the ICE mnemonic:

- Internal Within the business itself
- Connected Outside the business itself, but closely affected, often with a direct financial link
- External Affected by the business but only remotely or non-financially.

Internal and connected stakeholders may be referred to as "narrow" and all stakeholders including external stakeholders may be considered "wide" stakeholders.

Possible exam relevance:

- How well are the directors identifying stakeholders and prioritising the conflicting claims of stakeholders?
- How legitimate is a claim of an individual stakeholder (ie how fair is their expectation that they can influence the business?)



KEY KNOWLEDGE
Mendelow Matrix

This gives an indication of how directors of a business should prioritise their time and give relative weighting to different stakeholder claims in the event of stakeholder conflict.

Level of influence

Level of interest

Low

High

Low

Minimal effort required

Keep informed

High

Keep satisfied

Key players (core stakeholders)



KEY KNOWLEDGE

Pervasive Issues in Corporate Governance

Possible exam relevance:

- A useful checklist for assessing the performance of a board of directors.
- Could be used to identify conflicting directors' duties, eg in a takeover situation.
- Lots of scenarios when this could be useful, not least to possibly define what constitutes good corporate governance.

- Fiduciary duties of directors (legal duty arising from trust law)
- Directors' remuneration and rewards: alignment of directors' interests to stakeholders' wishes
- Board composition and balance
- Reliability of financial reporting
- Risk management and internal control
- Rights and responsibilities of shareholders
- Business ethics
- Corporate social responsibility
- Compulsory and voluntary best practice: does the entity go beyond what is legally required?



KEY KNOWLEDGE

Roles of Chairman and CEO

This is an important issue and a frequently occurring exam topic.

Chairman (the "head of state" of the company)

- Provide leadership to the board, ensuring its effectiveness and setting its agenda.
- Ensuring the board receives accurate and timely information, so directors can't be railroaded into following an over-dominant CEO's wishes.

CEO (the "prime minister" of the company)

- Execute the business plans determined by the board.
- Provide leadership to the business, ensuring the effectiveness of business operations and leading the process of setting strategy.
- Communicating effectively with