



**Part One – Chartered Governance Qualifying Programme**  
**Corporate Governance**

**Mock Examination**

**November 2023**

**Time allowed:** 3 hours (plus 15 minutes reading time)

You are allowed access to the Financial Reporting Council website during the examination

Answer ALL questions in Section A and three from the four questions in Section B.

Notes From Neill

A key part of this mock examination is to manage your timing. Spend no more than 45 minutes on Part A and for each of the questions in Part B.

A marking scheme is available on the KCB LMS. This will enable you to mark your own answers. Please do not send to me as unfortunately I will not be able to mark any papers.

Please share your comments on the KCB module whatsapp group.

GOOD LUCK

## Section A

*Answer ALL questions in this section*

1. Explain the four different theoretical approaches to Corporate Governance relating to the shareholder and stakeholder and provide examples for each. (5 marks)
2. Explain why the reporting lines of a Company Secretary are important and how those reporting lines should be managed if the Company Secretary is also the company's in-house legal adviser. (5 marks)
3. Explain the matters that the board should consider when introducing a whistleblowing procedure. (5 marks)
4. Explain the potential threats to auditor independence and provide examples of how these may arise. (5 marks)
5. Describe why a directors' remuneration policy must be approved by the shareholders of a UK incorporated quoted company, and explain the circumstances the company would need to put its directors' remuneration policy to shareholders for approval at its next Annual General Meeting. (5 marks)

Total for Section A: 25 marks

## Section B

Answer **THREE** questions only

6. Cratchit Limited (Cratchit) is a large IT retailer with over 2500 employees. It has a Board of five directors. Three directors are executive, including Bob Bumble, the CEO, and the Finance Director. The other two directors are non-executive: Nancy Sowerby, the Chair of the Board, and Tom Chitling.

Bob has informed Nancy that he has received a proposal from Marley Limited (Marley) for them to supply Cratchit a range of reconditioned laptop computers, which Bob thinks will be on good terms for Cratchit. It will be the first time that Cratchit has contracted with Marley. Bob wants the supply agreement to be discussed at the next Board meeting of Cratchit. He has mentioned to Nancy that Tom is also one of the non-executive directors of Marley.

Nancy has recently sought help from Rose Maylie FCG, a governance consultant. Nancy knows that due to the size of the company, that Cratchit should seek to implement the Wates Corporate Governance Principles for Large Private Companies (Wates Principles) and is interested in understanding how a company secretary may help. She is interested in appointing a company secretary on a full time basis, but in speaking to Bob, he thinks that a more effective approach would be to utilise outsourced resources.

As Rose Maylie, undertake the following:

- (a) Provide a summary of the steps that should be taken and issues that should be considered by the Board of Cratchit, as a result of the fact that Tom is on the Board of Marley. (10 marks)
- (b) With reference to the four main categories of roles they could perform, explain how a Company Secretary could assist the Board of Cratchit. Also, explain the advantages and drawbacks in appointing a Company Secretary as full time member of staff rather than outsourcing the role. (15 marks)

Total for Question 6: 25 marks

7. Fezziwig plc (Fezziwig) is a marketing agency with its shares listed on the London Stock Exchange. The Fezziwig Board comprises three executive directors and four non-executive directors, including a Senior Independent director (SID). The Board has decided that it needs to take steps to improve its stakeholder engagement. Fezziwig has a large workforce, who are mainly based at its head office. However, since the pandemic, around a quarter of its workforce continue to work from home. The board recently received a petition signed by many of those employees working from home expressing how isolated from the business they feel and requesting a meeting with the board. Also, over the last year Fezziwig has lost a number of its largest customers. Dora Spenlow, the CEO has suggested to the board that the reason for these customer losses could be that their competitors are offering cheaper services.

Fezziwig has a number of institutional shareholders who are unhappy because its share price halved in the week following an announcement of poor results. One of the institutional shareholders has voiced their belief that the reason for the drop in the share price and the poor financial results is as a result of losing a number of their largest customers. The shareholder blames Dora Spenlow, the CEO, for this. The institutional shareholders are also concerned of a rumour that Dora may have sold some shares in the company ahead of the announcement of the financial results.

As the Company Secretary of Fezziwig Plc, you have been asked to undertake the following:

- (a) Prepare a briefing note for the Board of Fezziwig discussing how it can improve its engagement with both its workforce and customers. (12 marks)
- (b) Analyse the steps that the institutional shareholders should take, and the rights that they could exercise, in light of their concerns about the performance of the CEO and also her potential sale of shares. (13 marks)

Total for Question 7: 25 marks

8. Copperfield Plc (Copperfield) is FTSE250 company with its shares listed on the London Stock Exchange. Historically, the company's publications have been largely paper based but in recent years it has moved to electronic publishing. However, the board believes that this transformation is not happening quick enough. The Board of Copperfield consists of the three executive director, Tim Cratchit, Peter Trotwood and Fred Monks. For the last twelve years, the Chair of the board has been Bill Micawber, who was formerly the CEO of another publishing company. The board has three independent Non Executive Directors, Charles Mann, Alan Fagin and Toby Crackit. Charles is an accountant and the other two have a backgrounds in publishing. Charles and Alan have been members of the board for 8 years and Toby has been a member of the board for two years. All the members of the board are male and white.

Copperfield recently conducted a staff survey, allowing staff to give anonymous feedback. An outcome of the survey is a suggestion that the behaviours of some of the sales team are not in line with the company's Code of Ethics, There is also some feedback from customers that they feel that they have been unfairly treated regarding the price that they have been charged for publications. Upon contacting the customer care line, they found the staff to be rude and unhelpful.

As the Company Secretary, you have been asked by Bill to undertake the following:

- (a) Provide a briefing note, setting out the key issues that the nomination committee will need to consider in creating a succession plan for the Board of Copperfield and how it will implement these. (13 marks)
- (b) Analyse what steps the Board could take to ensure that the culture of the company is aligned with the company's values and its Code of Ethics. (12 marks)

Total for Question 8: 25 marks

9. Pegotty Limited (Pegotty) is a construction company listed on the London Stock Exchange. The Pegotty Board consists of five directors: a Chair, two non-executive directors, a Chief Executive and a Finance Director.

The Audit Committee has been reviewing Pegotty's draft annual report and accounts (draft accounts) for the previous financial year and two of the committee members have raised a concern about whether the treatment of income in the draft accounts complies with accounting standards. The Chair of the Audit Committee, James Steerforth, has passed this concern on to Betsy Trotwood, the Finance Director. Betsy has told James that she is happy with the treatment of income in the draft accounts, and that the auditors have not flagged it as a concern, so there is nothing for the committee to be worried about. Betsy does not think that the concern needs to be mentioned at the next Board meeting when the draft accounts are to be discussed.

As part of the external audit, the auditor has raised two areas of concern with the Board. These concerns were firstly whether there was sufficient control over large purchase orders made for building materials and secondly whether the company was sufficiently prepared to respond to a cyber-security attack. As a result of the concerns raised by the external auditor, the Betsy Trotwood, the Finance Director of Pegotty wants to improve the company's internal controls. The company does not currently have an in-house internal audit function and instead it outsources the internal audit function by using an external professional firm to provide advice on internal control issues. Betsy is considering whether Pegotty should establish an in-house internal audit function to replace the externally provided function.

As the Company Secretary of Pegotty, you have been asked to undertake the following:

- (a) Analyse the steps that the Audit Committee should take in light of the concern raised by the committee members about the treatment of income in the draft accounts. Include what disclosures should be made in the Audit Committee report, which forms part of Pegotty's annual report and accounts. Explain what responsibility the Board as a whole has in relation to approving the annual report and accounts. (12 marks)
- (b) Analyse what elements of Pegotty's internal control systems should be reviewed in order to address the concerns raised by the external auditors, and what role an internal audit function could play in improving internal controls and risk management. Include the advantages and disadvantages of using an in-house internal audit function. (13 marks)

Total for Question 9: 25 marks