



Part One – Chartered Governance Qualifying Programme
Corporate Governance

Mock Examination

June 2024

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 potential threats to auditor independence and provide examples of how these may arise. (5 marks)
4. The UK Corporate governance code states that companies should undertake an annual board evaluation and that the Chair should consider having a regular externally facilitated board evaluation and in FTSE 350 companies this should happen at least every three years. Suggest the benefits of an externally facilitated evaluation over an internally evaluated board evaluation. (5 marks)
5. Explain the steps that a company should take in order to show that it has adequate processes in place to prevent bribery under the UK Bribery Act 2010. (5 marks)

Section B

Answer **THREE** questions only

6. Cratchit Limited (Cratchit) operate 300 convenience stores in villages throughout the UK. It has a Board of five directors. Three directors are executive, including Bob Bumble, the CEO. The other two directors are non-executive: Nancy Sowerby, the Chair of the Board, and Tom Chitling.

At a recent board meeting, it was reported that in recent years the staff turnover rate has increased significantly, with a suggestion from employee feedback that a contributing factor are the long hours that staff are expected to work, with minimal breaks. Feedback also suggested that the poor reputation of the company didn't help in attracting potential recruits. Tom suggested the company should review its corporate social responsibility as one factor in the company's poor reputation.

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 report to the Board setting out the advantages for Cratchit of considering CSR issues as part of its business strategy, including the types of CSR activities that could be considered and how the Board could measure the success of any CSR initiatives. (12 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. (13 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; Dora Spenlow, the CEO, Bill Grimes, the Finance Director and Bernard Bumble, the Chief Operating Officer. The Board also has four independent non-executive directors, including John Cratchit, the Chair. In 2022, Fezziwig made an acquisition of Twist & Sykes Limited, a web development agency. The acquisition was led by Dora and Bill, who pushed the acquisition through at great speed. Indeed, the acquisition was only presented to the board during a board meeting, with very little detail relating to the transaction provided. However, Dora assured the board members that due diligence had been undertaken and that the acquisition presented a great opportunity for Fezziwig, but that board approval for the acquisition was required immediately, at the meeting. This was given. Following the acquisition, the revenue of Twist and Sykes was significantly less than expected and contributed to Fezziwig announcing poor financial results for the 2023 financial year.

Fezziwig has a number of institutional shareholders who are unhappy, due to a significant fall in the share price in the week following the announcement of the poor results. One of the institutional shareholders has voiced their concern at the results and has suggested that the acquisition of Twist and Sykes was a poor decision by the board and they would like to discuss this with the Chair, John Cratchit. The institutional shareholders are also concerned of a rumour that Dora may have sold some shares in the company a few days 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 their duty of reasonable skill care and diligence in the decision to purchase Twist and Sykes and the issues arising. (10 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. (15 marks)

Total for Question 7: 25 marks

8. Copperfield Plc, is a large publishing company employing over 20,000 staff across its centres in the UK and Europe. The board consists of David Nickleby, the CEO and Founder, Jan Hawkins, the Finance Director, Julie Peggotty, the non executive Chair and four independent non executive directors. The company has recently concluded its IPO on the London Stock Exchange. It has now been agreed that David Nickleby will step down and be replaced. The company is also seeking the appointment of a new Chief Operating Officer, to join the board. The Nominations Committee has identified a candidate for the new roles and the remuneration committee has been tasked with proposing a new directors remuneration policy.

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) Julie has asked you, as the company secretary, to provide a briefing note regarding their legal obligations in respect of the development and implementation of their remuneration policy and the ongoing reporting for directors remuneration that must be undertaken. (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 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