



The Governance
Institute

Subject no. C10J

Chartered Secretaries Qualifying Scheme – Level One

Corporate Governance

June 2016

Thursday morning, 9 June 2016

Time allowed: 3 hours and 15 minutes
(including reading time)

Do not open this exam paper until the presiding officer or an invigilator tells you to.

You must not take this paper out of the exam room.

The exam paper contains **six** questions. Each question carries 25 marks. You must attempt **four questions only**.

Questions

Answer **four** questions from this paper.

- 1 The board of Bryant plc ('Bryant') has recently grown in size and the Chairman, Louise Abbott, is considering how to enhance its effectiveness, particularly in terms of decision-making. Bryant operates in a highly technical field, so board decisions can be delayed due to a significant volume of questions being raised at its meetings. These questions have to be referred to the relevant technical team within Bryant or to external advisors who have assisted in the research and development of the technology. Many of the directors have also highlighted that the volume and complexity of the board papers is an issue and that there is insufficient time to fully digest the information prior to meetings.

Louise would like to be advised on addressing these issues and how she, as Chairman, and you, as Company Secretary, can contribute directly to improving the effectiveness of the board.

Required

- (a) Discuss the factors that can affect decision-making and board effectiveness. (12 marks)
- (b) Explain how Bryant and its board can overcome the issues it is experiencing, discussing the specific contributions that you and Louise can make to this process of improvement. (13 marks)

(Total: 25 marks)

- 2 Westhill plc ('Westhill') has recently undertaken a board effectiveness review and, as a result, the CEO, Henry Bishop, is questioning the effectiveness of the non-executive directors (NEDs). The current board has been long-standing and the company's activities and its industry have changed and developed quite significantly over recent years. Henry is concerned that many of the NEDs do not have specific industry experience and may not understand the full scope of the company's current operations.

One of the NEDs is also due to retire and a new NED will be joining the board shortly.

Henry has approached you, as Company Secretary, for assistance.

Required

- (a) Analyse the criticisms which are made regarding the effectiveness of NEDs. (8 marks)
- (b) Discuss how Westhill can maximise the effectiveness of its NEDs, particularly in view of Henry's concerns. (9 marks)
- (c) Advise on the type and range of enquiries that an individual should make when considering an appointment as a NED. (8 marks)

(Total: 25 marks)

- 3 You act as a company secretarial consultant. Edward Bruce, the CEO of Diagon Retail Ltd ('Diagon'), has informed you that the company is considering an initial public offering (IPO). Edward and his board have asked you to provide them with an overview of corporate governance, with an emphasis on the company having high standards of ethical behaviour. Edward has come across references to the "overarching corporate governance principles" as set out in the original King Code. He seeks further explanation of these principles and guidance on adopting a formal code of ethics within Diagon.

In addition, Edward is concerned about the use of a new overseas supplier which has been proposed to source a clothing range more cost-effectively.

Required

Prepare a report to the board of Diagon in which you:

- (a) Explain what the overarching corporate governance principles described within the original King Code are. *(8 marks)*
- (b) Distinguish between the different models of corporate ethics and discuss the reasons why Diagon might develop a formal code of ethics. *(11 marks)*
- (c) Analyse the ethical issues that using a new supplier could raise and how these might be effectively managed and controlled at Diagon. *(6 marks)*

(Total: 25 marks)

- 4 Higgins plc ('Higgins') is preparing for its flotation on the London Stock Exchange and, at present, is concentrating on audit procedures. It needs to establish an audit committee, and also address some issues with regard to its external auditors. The current auditors, Stock LLP, are willing to continue their appointment but concerns have been raised by the board in respect of Stock LLP's independence, due to the amount of non-audit work they have carried out for Higgins in the past. The Chairman of Higgins is of the opinion that new auditors should be appointed and that the appointment should be put out to tender. The CEO disagrees and would like Stock LLP to remain, in order to provide continuity. The board has requested that you, as Company Secretary, prepare a paper for its consideration.

Required

Prepare a paper for the board of Higgins in which you:

- (a) Explain the requirements for the composition of an audit committee, and its role and responsibilities, as required by the UK Corporate Governance Code 2014. *(15 marks)*
- (b) Advise how Higgins should deal with the issues raised in respect of the current auditors. *(10 marks)*

(Total: 25 marks)

- 5 David Castle recently joined Grove Ltd ('Grove'), a company in the telecommunications industry, as its new CEO and has highlighted his concerns over the lack of a whistleblowing policy and related procedures.

David has asked that you, as Company Secretary, prepare a paper for consideration by the board.

Required

Prepare a paper for the board of Grove in which you:

- (a) Define the terms 'whistleblower' and 'whistleblowing' and explain where responsibility for implementing and reviewing the whistleblowing policy should lie. (5 marks)
- (b) Describe the best practice in establishing a whistleblowing policy and what the main features of a whistleblowing policy should be. (9 marks)
- (c) Discuss the concerns or problems with whistleblowing systems and any relevant solutions. (11 marks)

(Total: 25 marks)

- 6 (a) Explain what institutional shareholders are, how they operate and the provisions of the UK Stewardship Code 2010 which set out their responsibilities. (8 marks)
- (b) Discuss the typical views of institutional shareholders on directors' remuneration. (9 marks)
- (c) Evaluate the practical requirements, set out in the UK Corporate Governance Code 2014, for a board of directors to maintain a dialogue with major shareholders. (8 marks)

(Total: 25 marks)

The scenarios included here are entirely fictional. Any resemblance of the information in the scenarios to real persons or organisations, actual or perceived, is purely coincidental.

