Thursday morning, 8 June 2017

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 Colway plc (‘Colway’), a listed company in the communications industry, has an all-male board comprised of four non-executive directors (NEDs), including the Chairman, and three executive directors. All of the NEDs have significant knowledge and experience in the communications field and previously held senior positions at market-leading organisations.

Two of the NEDs have served on the board of Colway for five years, one NED for seven years and the Chairman for ten years.

At a recent board meeting, one of the NEDs stated that he had concerns about the current composition of the board and suggested that the nomination committee should undertake a full review.

Required
(a) Explain the role of a nomination committee in making appointments to a board and explain how its work should be disclosed in the annual report and accounts. [Note: you should not refer to Colway in this part of the question.]

(12 marks)

(b) Discuss the issues which the nomination committee of Colway should consider within its review.

(13 marks)

(Total: 25 marks)

2 Parkham plc (‘Parkham’) was originally founded by George Hammond over 10 years ago and he became Chairman when Parkham became a listed company. A majority of the board members were appointed on the basis of their connection to the Chairman rather than on their skills. The board members often feel that decisions are made without George fully consulting them.

A newspaper article has highlighted that investors are expressing concerns over the corporate governance practices at Parkham, stating: “Unfortunately, we have seen the consequences of poor governance standards so many times before”.

Required
(a) With reference to examples of poor governance you are familiar with, analyse the weaknesses of, and the potential consequences of, the corporate governance arrangements at Parkham.

(15 marks)

(b) Explain the agency and stakeholder theoretical frameworks for corporate governance. [Note: you should not refer to Parkham in this part of the question].

(10 marks)

(Total: 25 marks)
Alice Waters has recently been appointed as Chairman to the board of Linton plc ('Linton'), a listed company. Alice was appointed due to her knowledge and experience in the sector in which Linton operates and this is her first chairmanship role.

One of Linton's main institutional investors, Greystone Pension Fund ('Greystone'), has advised that it is considering selling its shareholding as it is not satisfied with the level and method of communication with the board. The Chief Executive Officer (CEO) has been the main point of contact for shareholders.

Greystone has reported to Alice that the frequency and scope of dialogue with the company is insufficient and that its views do not appear to be understood or communicated.

As a first step in addressing these issues, the board of Linton has appointed one of the existing non-executive directors as its first Senior Independent Director (SID).

Required

(a) Explain and distinguish between the roles and responsibilities of a Chairman, CEO and SID in a listed company. [Note: you should not refer to Linton in this part of the question.]

(b) Advise Alice on how to deal with the issues raised by Greystone, with the aim of developing effective relationships with investors.

(Total: 25 marks)
Clarco plc (‘Clarco’) is listed on the London Stock Exchange and operates within the retail sector.

In the previous year an incident occurred at one of Clarco’s warehouses, where stock and other company assets were stolen. It appears that some employees, including senior managers, at the warehouse may have been involved. A Stock Exchange announcement was released when Clarco became aware of the incident at the warehouse, which merely stated that an investigation was underway and that the results of this would not be available for some time.

The overall financial performance of the company has not been good in the current year, and although this is due to a range of market factors, the incident at the warehouse has clearly had a significant negative effect.

Clarco’s first annual report and accounts as a listed company are now being prepared. Some members of the board have suggested that the annual report and accounts should address the general market factors which have affected the company, but no details of the incident should be included. They propose that Clarco releases an announcement after the investigation has been concluded. The Chairman would prefer to report on all the relevant matters, but is concerned that investor confidence may be further affected.

**Required**

(a) Discuss the importance of the principles of accountability and transparency in reporting and why these are key to effective governance. [Note: you should not refer to Clarco in this part of the question.]

(12 marks)

(b) With regard to the incident at Clarco’s warehouse, advise Clarco on the following points:

- The duties and responsibilities of its directors.
- How it should manage the annual report and accounts.

(13 marks)

(Total: 25 marks)
Barwell Ltd ('Barwell') has recently grown in size in terms of business activities, number of employees and revenue and is a market leader in its industry.

The board of Barwell has further ambitious plans for growth, with the objective of undertaking an initial public offering (IPO) and becoming listed on the London Stock Exchange.

With these plans in mind, the audit committee of Barwell has been discussing its concerns as to whether sufficient internal controls are in place. The audit committee wishes to make a recommendation to the board that an internal audit function is required.

**Required**

The audit committee has asked you, as Company Secretary, to prepare a briefing paper in which you:

(a) Describe the elements of a system of internal controls and explain the factors that internal auditors should consider in assessing the effectiveness of internal financial controls. [Note: you should not refer to Barwell in this part of the question].

(12 marks)

(b) Discuss the function and scope of internal audit and how its introduction might be of benefit to Barwell.

(13 marks)

(Total: 25 marks)
6 Denton plc (‘Denton’) has a wide international shareholder base. Shareholder communications are currently still undertaken in printed format, including the issue of the annual report and accounts, notice of annual general meetings and shareholder circulars.

Overall, most of Denton's international shareholders do not attend the company’s annual general meetings (AGMs), which are always held in the UK. In recent years, there has been a steady increase in the volume of shareholder complaints about insufficient communication or delayed communications.

Denton has recently engaged a communications consultancy and work has commenced on building a new website for the company. At the beginning of this project you, as Company Secretary, investigated the use of electronic communications and voting.

**Required**

**(a) Explain the provisions of the UK Corporate Governance Code in respect of making constructive use of the AGM and discuss the limitations of AGMs. [Note: you should not refer to Denton in this part of the question].**

*(13 marks)*

**(b) Advise on the best practices which should be followed in implementing electronic communications, and evaluate how Denton and its shareholders might benefit from using electronic communications.**

*(12 marks)*

*(Total: 25 marks)*

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*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.*