

WOMEN'S UNIVERSITY IN AFRICA



Addressing gender disparity and fostering equity in University Education

FACULTY OF MANAGEMENT AND ENTREPRENEURIAL SCIENCES

BSc. HONOURS DEGREE IN HUMAN RESOURCE MANAGEMENT

BACHELOR OF ACCOUNTING SCIENCE HONOURS DEGREE

MAIN PAPER

HRM 213: CORPORATE GOVERNANCE

INTAKE 11 : SECOND YEAR FIRST SEMESTER

DATE:

TIME: 2 HOURS

INSTRUCTIONS TO CANDIDATES

Answer **Question 1** and any other two.

Question 1

A few months ago Draker, a major national retailer, uncovered a serious issue within its financial accounts. In accordance with local stock market regulation, Draker issued a profits warning statement detailing that its pre-tax profits for the last six months had been overstated by \$250 million. As a result of this error, profits for the first half of the financial year were around 25% lower than forecast, and already well below initial expectations. When stock market trading opened, Draker's share price immediately fell by 12%, and it has not yet recovered. The audit committee of Draker decided to engage a firm of accountants to investigate the reason for this massive discrepancy, and in doing so delayed the publication of its interim results by a month. Their preliminary findings stated that the Draker profit overstatement was due to the accelerated recognition of commercial income and the delayed accrual of costs. Further detailed investigations indicated internal financial reporting systems and associated internal controls were wholly inadequate, allowing significant errors to go unchecked. Before Draker announced the results of investigations, they were leaked to the media. The alleged serious errors and the need for further external assurance were widely reported due to the scale of the irregularity and the importance of Draker to the national economy. The board as a whole was heavily criticised, and at an extraordinary general meeting convened at the express wish of its major institutional shareholders, the chairman, the chief executive officer and the finance director were all asked to tender their resignations and the new board to establish a risk committee to ensure such problems would never arise in the future.

Required:

- a) Explain the responsibilities of the board of Draker for ensuring effective financial reporting and internal control systems. [10]
- b) Explain how the work of a risk committee can help the board fulfill its responsibilities. [10]
- c) Describe the objectives of internal control systems, and explain how meeting these could help prevent further misreporting or error at Draker. [10]
- d) Explain the general principles of disclosure and communication which the board of Draker should follow when it briefs its shareholders. [10]

Question 2

- a) Explain what is meant by directors' and officers' liability insurance and explain why it is relevant to corporate governance. [10]
- b) Discuss the main roles of an internal audit function and explain why it is important in corporate governance terms. [15]
- c) Explain what a 'going concern statement' is. [5]

Question 3

- a) Compare and contrast the contribution which executive directors and NEDs make to the work of a board. [15]
- b) Advise on the elements which would comprise an effective induction programme for the new directors joining a company and why these elements are important. [15]

Question 4

- a) Discuss why remuneration is recognised as an important governance issue and the role of shareholders in monitoring it. [10]
- b) Explain the role and composition of the remuneration committee, as required by the UK Corporate Governance Code 2014. [10]
- c) Describe and explain the matters which the remuneration committee should consider when preparing for the AGM. [10]

Question 5

- a) Discuss the differences between strategic risk and operational risk, examples to a listed company operating in the retail sector. [10]
- b) Discuss the key elements of a disaster recovery plan. [10]
- c) Discuss the division of responsibility between company directors and external auditors in respect of the prevention and detection of fraud. [10]

Question 6

- a) Contrast the approach to corporate governance in listed and unlisted companies and outline the general principles applicable to all unlisted companies. [15]
- b) Prepare a schedule of matters reserved for the board and explain why this would be useful for a company. [15]

END