

UNIVERSITY OF COLOMBO, SRI LANKA

FACULTY OF MANAGEMENT AND FINANCE

Bachelor of Business Administration Honours in Accounting (Semester VII) Examination –
September, 2021

ACT 4220 – Corporate Governance

Two (02) Hours

This is an Open Book Examination

Answer All Questions

This Paper Consists of Four (04) Questions Printed in Four (04) Pages

1. i. “Every company should have an effective Board”.

Discuss role of the Board to carry out the company activities effectively with the support of the precise sections of the Code of Best Practice on Corporate Governance 2017 issued by the Institute of Chartered Accountants in Sri Lanka (ICASL).

(07 Marks)

ii. SG Company (Pvt) Ltd (SG) is operating in healthcare sector in Sri Lanka for over two decades, since 2000, and is a provider of medical infrastructure and healthcare equipment to hospitals. SG is planning to list on the Colombo Stock Exchange (CSE) within next four months. Mr. Mahesh Perera, the Founder of the company is the Chairman of the Board and he was the Managing Director of SG until 2018 and then he stepped down from the position and now acting as the Chairman of the Board. Mr. Perera has started his career as a Sales Representative in a pharmaceutical company and has more than 30 years of experience in the pharmaceutical, chemical and biomedical industries. The Board is comprised of four Executive Directors and three Non-executive Directors including the Chairman. The Executive Directors comprised of the Chief Executive Officer (CEO), Director Research and Development, Director Legal, and Director Finance who are well qualified and experienced in the field. Other than the Chairman, one of the Non-Executive Directors was previously served as the Director Customer Relationship at SG and retired in 2019. Mr.

Rajiv Fernando, the brother-in-law of Mr. Perera was the other Non-Executive Director, who is an engineer by profession. SG has established an Audit Committee where all the Non-Executive Directors are members of that committee and it is chaired by the Chairman. SG is currently considering two potential candidates to appoint them as Independent Non-Executive Directors and they have almost agreed to the terms and conditions of SG. They are, Mr. Shehan Antony, a Finance Director of a banking company and Mr. Suren De Silva, an Internal Auditor by profession, who currently holds a Non-Executive Director position at the Newlanka Hospitals.

a. Evaluate the Board balance as per the prescribed requirements of the Code of Best Practice on Corporate Governance 2017 by ICASL.

(06 Marks)

b. Evaluate the composition of the Audit Committee and give recommendations for SG Company (Pvt) Ltd on changes needed to meet the requirements of the Code of Best Practice on Corporate Governance 2017 by ICASL.

(12 Marks)

(Total 25 marks)

2. i. Discuss the key characteristics of the Anglo-American model of corporate governance.

(07 Marks)

ii. Discuss how the role of the Audit Committee would contribute to improve the effectiveness of governance practices of corporate entities.

(10 Marks)

iii. Discuss the importance of setting up the Related Party Transactions Review Committee and its role to improve the effectiveness of governance practices with reference to the Section 9 of Colombo Stock Exchange (CSE) Listing Rules.

(08 Marks)

(Total 25 marks)

3. Mr. Carlos Ghosn, the Chairperson of Nissan Motor Company Ltd. (Nissan) was arrested for alleged misconduct and criminal offences related to the underreporting remuneration and misrepresenting annual disclosures in November 2018. Mr. Ghosn served as the Chief Executive Officer (CEO) and the Chair of the Board of Nissan from 2001 until April 2017. Mr. Ghosn also served as the Chair and the CEO of Renault Company starting in 2009 and as the Chair of Mitsubishi Company starting in 2016, of which Nissan had 15 percent and 34 percent ownership respectively in both companies. The Board of Directors of Nissan did not include any sub-committees in 2018 and from 2004 onwards. Mr. Ghosn was delegated the authority to determine Executive Director compensation, including his own. Mr. Ghosn's salary as the Chairperson at Nissan was reported approximately of \$10 million per year since 2010, nearly 11 times the salary of Toyota Company's Chairperson. Reported compensation was much lower than the actual as they have manipulated it by removing the retirement bonus and incentive compensation linked to Nissan's stock price. Further, Independent Directors had also chosen by Mr. Ghosn in the absence of a Nomination Committee. In early 2018, he appointed two Independent Directors to the Board who were having no experience in business or management. Out of them, one person was a race-car driver, and the other was a Japanese bureaucrat. A "CEO reserve" was established since 2009, which enabled miscellaneous expenses beyond the budget policies of each department. Expenditures incurred on the CEO matters were untraceable, which was considered preapproved by the CEO and could not question those transactions.

(Extracted and adapted from the publication of Kohli, N. and Gaur, A. (2020), Nissan Motors: Corporate Governance Failure, Ivey Publishing, Canada).

i. Discuss the importance of corporate transparency and corporate disclosures referring to the case information given above.

(07 Marks)

ii. Explain circumstances that made Mr. Carlos Ghosn's misconduct and how Nissan could have prevented such behaviour.

(06 Marks)

iii. Critically evaluate the corporate governance practices adopted by Nissan referring to the Code of Best Practice on Corporate Governance 2017 by ICASL.

(12 Marks)

(Total 25 marks)

4. i. “One of the main reasons for short-term corporate behaviour is that the trustees place considerable pressure on fund managers to maximize short-term investment at the expense of long-term investment returns”.

Discuss the ownership and agency problem arise from the relationship between the institutional fund managers and the trustees.

(09 Marks)

ii. “Shareholders should be informed of relevant details of the Directors of the company”.

Explain the information disclosures which are required to be published in annual reports in respect of the Directors.

(10 Marks)

iii. “When shareholders think that management is not maximizing the company’s potential, it is their responsibility to make a voice on such mismanagement”.

Describe activities that shareholders can perform to avoid such situations.

(06 Marks)

(Total 25 marks)
