

UNIVERSITY OF COLOMBO, SRI LANKA

FACULTY OF MANAGEMENT AND FINANCE

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

July, 2022

ACT 4220 – Corporate Governance

Two (02) Hours

Answer Any Four (04) Questions

This is an Open Book Examination

This Paper Consists of Five (05) Questions Printed in Three (03) Pages

1. i. SAREC PLC is a registered Sri Lankan company. It's board consists of nine (09) directors (i.e. two lawyers, two Bachelor of Arts (BA) graduates in sociology, one Chartered Institute of Management (CIM) member, one engineer, one graduate in Human Resources Management and two chartered accountants). Six of them are non-executive directors (one lawyer, one chartered accountant, two BA graduates in sociology, engineer and a CIM member) while four of them are independent directors (BA graduate in sociology, chartered accountant and two lawyers). The Chairman and CEO of the company, Mr. Albert Thissera is an executive director. One chartered accountant is the chair of the audit committee while one executive and two independent directors are the other committee members. The remuneration committee consists of two non-executive directors and two independent directors. The related party transaction committee consists of one independent director, two non-executive directors and one executive director. The nomination committee consists of one non-executive director, one independent director and one executive director. Evaluate the SAREC PLC's board balance and composition of sub committees as per the prescribe requirements of the code of best practices on corporate governance in 2017.

(10 Marks)

- ii. Discuss stakeholder theory and its implications for corporate governance.

(07 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)

2. i. “Conflict of interest and, lack of accountability and transparency are the most dominant reasons for corporate collapses”.

Discuss the rule-based (mandatory) and principle-based (voluntary) mechanisms as a part of the corporate governance practices to remove the impact of conflict of interest and, lack of accountability and transparency.

(12 Marks)

ii. “Concept of good governance is an effective mechanism of protecting public interest”.

Comment on the above statement with examples from the Sri Lankan context.

(13 Marks)

(Total 25 marks)

3. i. Evaluate the role of independent directors and both internal and external auditors to strengthen and improve the effectiveness of corporate governance mechanisms.

(08 Marks)

ii. “One of the major corporate scandals of Sri Lanka in early 2000 was Pramuka Savings and Development Bank collapse”.

Discuss the identified critical issues of the corporate governance practices of Pramuka Savings and Development Bank.

(07 Marks)

iii. Discuss the obligations of the board towards the society at large.

(10 Marks)

(Total 25 marks)

4. i. “Institutional investors have the potential to influence activities of the management directly through their ownership, and indirectly by trading their shares. Institutional investors’ indirect influence can be quite strong”.

Elaborate on the above statement by emphasizing the “added agency problem” that arises with institutional investors.

(10 Marks)

- ii. Explain the relationship between auditing, internal control and risk management, and the responsibilities of the Board of Directors in risk management.

(11 Marks)

- iii. State the four (04) main choices of risk management.

(04 Marks)

(Total 25 marks)

5. i. “An increasing number of earnings restatements along with many allegations of financial statement fraud committed by high profile companies has eroded the public confidence in corporate governance, the financial reporting process, and audit functions”

Discuss the role of the Audit Committee in increasing the effectiveness of governance practices in corporate entities according to the Code of Best Practices - 2017.

(15 Marks)

- ii. Briefly explain four (04) topics from the following:

- a. Shareholder activism and forms of shareholders’ activism
- b. Codes of ethics of internal auditor
- c. Information asymmetry
- d. Agent morality
- e. Insider and outsider dominated systems

(2.5*4 = 10 Marks)

(Total 25 marks)