



GOVERNANCE AND ETHICS SAMPLE QUESTIONS

1. You were appointed Financial Controller of a firm of builders' merchants almost a year ago, with the prospect of becoming Finance Director if you performed well.

The problem customer

An old-established customer, a contractor, X Ltd, which has expanded to take on a very large contract, is causing problems with delayed payments. X Ltd is a family firm, largely owned by its Managing Director, Y. Following a discussion at a management meeting, the Sales Director and a member of your staff visited the customer with instructions to “try and resolve the matter of delayed payments”.

The meeting

At the meeting, the Sales Director took the lead, having known Y for many years. Y provided the last annual accounts and the latest management accounts and contract accounts. This one large contract that X Ltd had undertaken represents some 70% of its current activity. If all, or almost all, suppliers allow additional credit for material, and X Ltd uses its very limited remaining bank facilities to pay the workforce, Y thinks the company should be able to complete the next stage of the contract, get the architect to certify the work has been completed, and obtain a progress payment. This would enable X Ltd to pay suppliers, get more materials, and finish the contract. However, Y considers the company will make a significant loss on the contract and will only be able to trade on a much reduced scale thereafter.

The Sales Director suggested, and Y agreed, an arrangement by which Y would make a payment from personal funds, against which your company would release materials to X Ltd. When it receives the progress payment X Ltd will pay your company from its company's funds and reduce the amount owing to well within normal terms. Your company will then repay Y the personal funds he has paid. It was agreed that this arrangement should be discussed and agreed with your Managing Director in the morning.

After the meeting

On his return, the Sales Director commented that this sort of arrangement was probably the only way of getting any money back - if X Ltd went into liquidation nothing would be recovered.

Later you received a telephone message that Z, the Finance Director of another firm of builders' merchants and whom you know through local branch meetings, has asked you to telephone urgently regarding the credit status of X Ltd.

Required

Write a report to your Managing Director, evaluating the ethical considerations and recommending the action to be taken on the account and on the telephone message.

2. What do you mean by corporate governance? Why corporate governance has assumed importance these days?

3. a. Outline the main features of a two-tier board structure.

b. Explain the meaning of the term „insider dealing“, and indicate the sanctions which may be attached to this activity.

c. Outline what a director's 'duty of skill and care entails.

4a) Uptex Ltd is a company engaged in the manufacturing of various drugs for the local market. There have been series of ethical infractions within the company. Some top management have been accused of insider trading, bribing of some key staff of the regulatory authorities and attempts to cover up alleged distribution of expired drugs. There is total breakdown of ethical standards within the company. The boards of directors have expressed grave concerns about the current happenings in the company. At its last quarterly meeting, the board resolved to engage the services of a corporate governance expert to help address the situation. The board understands that there are two major approaches to managing ethics in an organization.

Required:

As a corporate governance expert, you have been engaged by the board to advise it on **TWO approaches to the management of ethics** in organisations.

b) The Chartered Compliance and Cyber Code of Ethics discusses the need for professional compliance analyst to be aware of and avoid conflict of interest situation as well as maintain independence in carrying out their professional duties. The professional compliance analyst is exposed to several threats to independence, which are likely to lead to conflict of interest. A threat may arise where an assurance firm provides services other than assurance services to an assurance client.

Required:

i) Identify the specific threat a professional compliance analyst or assurance firm faces by providing the following services:

- Preparing accounting records and financial statements;
- Valuation services.

ii) Suggest **TWO** measures each a professional accountant can take to minimize the threats identified in (i).