



Institute of Certified Management Accountants of Sri Lanka
Incorporated by Parliament Act No.23 of 2009

May 2022 Examination

Strategic Level **GCE – 404 Corporate Governance, Control Strategy & Ethics**

No. of Pages: 07
No. of Questions: 05

Instructions to Candidates:

1. Time Allowed : Reading – **15 minutes**.
Writing - **Three (3) hours**.
2. Total : **100** Marks.
3. This paper consists of two Parts.
Part-I : Question no. 01 (**Compulsory**).
Part- II: Question no. 02 – 05 (**Select any 03 questions**).
4. Answer only four (04) questions including Question No. 01.
5. The answers should be in **English** language.
6. Begin each answer on a separate page in the answer booklet.

PART-I
Compulsory

QUESTION NO. 01

Mr. Harsha Gunasena was appointed as an independent director of Sanasuma Wind Energy (Pvt) Limited (SWE) in the year 2018. Mr. Gunasena is a fellow member of the Institute of Certified Management Accountants of Sri Lanka (CMA); SWE has two wind power plants in Puttalam and Hambanthota areas generating electricity and the generated electricity is supplied to the Ceylon Electricity Board (CEB) under an agreement that has been signed for a 20-year period. SWE has borrowed money from its bankers amounting to Rs.750Mn at a rate of LIBOR +1.5%. The company is having a high loan balance compared to the equity, which is currently 9:1 (debt to equity ratio). With the current economic crisis, the Central Bank has raised LIBOR from 6% to 20% which is the highest rate in three decades. The Finance Director of the company, Mr. Sunil De Silva, a Fellow member of the Institute of Chartered Accountants of Sri Lanka advised the board of directors of the company about the increase in interest rates and the adverse impact on the bottom line of the company and suggested to go to the public to raise funds and pay off the loan obtained to maintain the sustainability of the company. The Board of Directors approved the proposal and advised the company secretary, Mrs. Nuwani Iddamalgoda to advise the legal requirements and procedure to list the company on the Colombo Stock Exchange (CSE).

SWE is a family-owned business enterprise established in the year 2008, and Mr. Nimal Perera is the current Chairman / Managing Director of the company, and his two brothers are the other shareholders of the company and have an equal number of shares in the company. The current Board comprises of one independent non-executive director and four executive directors.

Mr. Harsha Gunasena is currently serving as a member of the Security Exchange Commission of Sri Lanka and had not disclosed the independent directorship of SWE at the time, he became a member of SEC, thinking, as it is not necessary since he is only an independent non-executive director.

The company secretary has started the process as per the listing rules to go for the IPO and raise the necessary funds to pay off the bank borrowings of the company.

The Board of Directors has discussed the process and subsequent requirements after becoming a public company at the Board meeting and the Chairman requested the secretary to prepare an informative note to the Board to educate the directors about the different aspects important to understand as directors of a public company.

The company secretary, Mrs. Nuwani Iddamalgoda approached you and requested you to prepare the report covering the following areas.

You are required to:

- 1.1. Explain** the additional responsibilities that come as a director of a public company.
(05 Marks)
 - 1.2. Discuss** the concept of corporate governance and the important role played by a company secretary to enhance the corporate governance of a quoted public company.
(08 Marks)
 - 1.3. Critically evaluate** the current position on the board of directors of SWE and **advise** on the composition of the board of directors of a public company complying with the requirements of the “Code of Best Practice on Corporate Governance - 2017” of Sri Lanka.
(07 Marks)
 - 1.4. Explain** any conflict of interest regarding a person holding a public office in SWE.
(07 Marks)
 - 1.5. Assess** the professional conduct of the independent director, Mr. Harsha Gunasena.
(07 Marks)
 - 1.6. Recommend** any remedial strategy if any professional misconduct before going for the Initial Public Offering.
(06 Marks)
- [Total 40 Marks]**

PART II

Answer any 03 questions

QUESTION NO. 02

Agro Products Enterprise PLC (APE) is an agro-based farming and trading organization established in the year 2010. The current Chairman, Dr. Haseem Mohomed is an agriculture scientist who is conducting research-oriented farming concepts in the organization. The organization follows the traditional budgeting system and variance analysis as a financial control system of the organization. The Board of Directors of the company observed huge losses being incurred currently and vast deviation from the budget when the Finance Director tabled the monthly financial statement with his analysis and comments. The Board was not satisfied with the Finance Director's comments on the mismatch of monthly variances shown in the monthly variance report and requested him to explain the real cause of such adverse variances. He was unable to give a precise explanation due to a large amount of cost incurred on common expenses and it was not categorized under each activity, for example, research and development cost, energy cost, as there is no current practice for the overhead allocation based on activity-wise. You have been appointed as the new Management Accountant of APE and the Finance Director has requested you to revisit the budgetary control system and submit a report covering the following in order to submit a Board paper at the next Board meeting.

You are required to:

2.1. Discuss the important role played by the budgetary control system as a basis for a sound management control system of an organization.

(07 Marks)

2.2. Evaluate the existing budgetary control system and advise the current issues over it.

(05 Marks)

2.3. Recommend appropriate budgetary control system suitable for APE and **explain** the advantages and disadvantages of such a system.

(08 Marks)

[Total 20 Marks]

Question No. 03

PART-A

“As enterprise-wide risk management (ERM) becomes established in organizations, the internal audit activity can progress from being risk-based to being ERM-based internal audit”.

You are required to:

3.1. Discuss how the ERM-based internal audit helps to enhance the Corporate Governance Framework of a public organization.

(10 Marks)

PART-B

“Environmental matters are becoming significant to an increasing number of entities and may, in certain circumstances, have a material impact on their financial statements”.

You are required to:

3.2. Assess the above statements considering the important role played by an Environmental Audit to maintain a sound management control system of an organization.

(10 Marks)

[Total 20 Marks]

QUESTION NO. 04

ABC PLC has been listed recently on the Colombo Stock Exchange to raise equity capital, which is a manufacturing company that produces surgical gloves for the health sector and exports them to the USA market. Mr. Kamal Fernando has been appointed as an Independent Director of the company and it is his first appointment as an independent director. The board of directors of ABC PLC has compiled the requirements of the composition of a public company but the company still has not formed the necessary committees as required by the Code of Best Practice on Corporate Governance - 2017. The Board of Directors pointed out that it is of utmost importance to focus on Accountability and Audit as a quoted public company.

You have been appointed as the company secretary and the board of directors requested you to brief the following areas at the next board meeting.

You are required to:

4.1. Evaluate critically the role of independent directors to improve the corporate governance situation of ABC PLC.

(08 Marks)

4.2. Briefly explain the importance of proper Accountability & Audit and its role in Corporate Governance of ABC PLC.

(07 Marks)

4.3. Recommend Board committees that should be formed to comply the Code of Best Practices on Corporate Governance - 2017.

(05 Marks)

[Total 20 Marks]

QUESTION NO. 05

PART-A

“Professional behaviour imposes an obligation on professional accountants to act in the public interest”.

Sri Lanka currently facing an economic crisis which is the worst crisis in the history, and it has paralyzed the private sector and public sector economic activities.

You are required to:

5.1. Discuss the importance of professional behaviour which would have avoided this situation referring to the concept of public interest of professional accountants in the point of view of a member of the Institute Certified Management Accountants of Sri Lanka.

(12 Marks)

PART-B

Mr. Kamal Fernando is an employee of the Colombo Stock Exchange who has access to confidential and sensitive information relating to the market and member companies. He has few friends who were together at the university working as investment analysts of certain stockbroker companies. He used to disclose some sensitive information to his friends before that information about trading companies go to the public.

You are required to:

5.2. Assess the behavior of Mr. Kamal Fernando referring to the ethical framework in professional conduct and legal requirements.

(08 Marks)

[Total 20 Marks]

-End of the Question Paper-