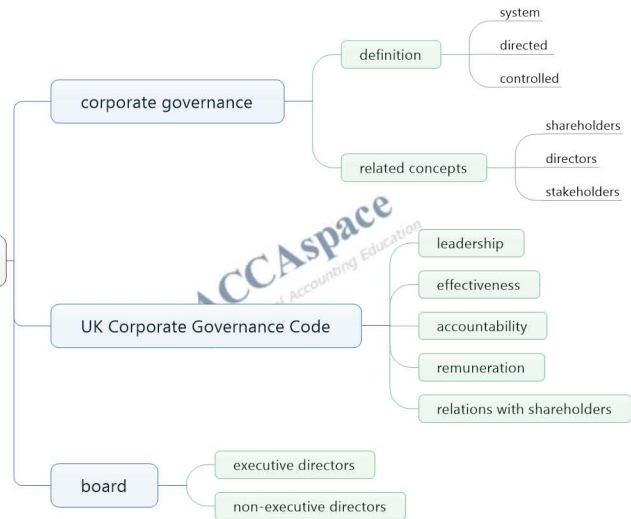


Map 1 Corporate Governance



**ACCAspace**  
Professional Accounting Education

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## Definition of Corporate Governance

Corporate governance is the **system** by which companies are directed and controlled.

公司治理是引领和控制企业的系统。

**公司治理是公司的政治治理。**

就像国家政治一样，没有最好的政治制度，只有相对适用的政治制度，制度好坏要从国情出发。

公司治理也是一样，没有最好的公司治理，只有相对适用的公司治理，治理要从公司具体情况出发。

学习公司治理，要有框架思维，辩证思维，不要死记硬背，不要教条主义。



## Definition of Corporate Governance

- Directors: responsible for corporate governance
- Shareholders: linked to the directors by the financial statements
- Other relevant parties: such as employees, customers and suppliers (stakeholders)



# UK Corporate Governance Code

Principles of the UK Corporate Governance Code(for listed UK companies)

## Leadership

- Every company should be headed by an **effective board**, which is collectively responsible for the long-term success of the company.
- There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. **No one individual should have unfettered powers of decision.**
- The **chairman** is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role.
- As part of their role as members of a unitary board, **non-executive directors** should constructively challenge and help develop proposals on strategy.



# UK Corporate Governance Code

Principles of the UK Corporate Governance Code(for listed UK companies)

## Effectiveness

- The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.
- There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.
- All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.
- All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.
- The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.
- The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.
- All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.



# UK Corporate Governance Code

Principles of the UK Corporate Governance Code(for listed UK companies)

## Accountability

- The board should present a balanced and understandable assessment of the company's position and prospects(前景).
- The board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems.
- The board should establish formal and transparent arrangements for considering how it should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditor.



# UK Corporate Governance Code

Principles of the UK Corporate Governance Code(for listed UK companies)

## Remuneration

- Executive directors' remuneration should be designed to promote the long-term success of the company. Performance-related elements should be transparent, stretching(有弹性的) and rigorously(严格地) applied.
- There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding their own remuneration.



# UK Corporate Governance Code

Principles of the UK Corporate Governance Code(for listed UK companies)

## Relations with shareholders

- There should be a dialogue(对话) with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.
- The board should use the AGM to communicate with investors and to encourage their participation.





## Executive Directors and Non-executive Directors

**Executive Directors** are involved full time in managing the company.  
(CEO/CFO etc.)

**Non-executive directors** are directors who do not have day to day operational responsibility for the company. They are not employees of the company who primarily focus on monitoring.



## Audit Committee

**An audit committee** is a sub-committee of the board of directors, usually containing a number of non-executive directors.

An audit committee can:

- Improve the quality of **financial reporting**, by reviewing the financial statements on behalf of the board
- Create a climate of discipline and control which will reduce the opportunity for **fraud**
- Strengthen the position of the **external auditor** by providing a channel of communication and forum for issues of concern
- Strengthen the position of the **internal audit** function, by providing a greater degree of independence from management



## Audit Committee

### UK Corporate Governance Code provisions relating to the audit committee

The board should establish an audit committee of at least three or, in the case of smaller companies, two independent **non-executive directors**.



# Audit Committee

## Drawbacks of audit committees

The board should establish an audit committee of at least three or, in the case of smaller companies, two independent **non-executive directors**.

- (a) The executive directors may not understand the purpose of an audit committee and may perceive that it detracts from their authority.
- (b) There may be difficulty selecting sufficient non-executive directors with the necessary competence in auditing matters for the committee to be really effective.
- (c) The establishment of such a formalised reporting procedure may dissuade the auditors from raising matters of judgement and limit them to reporting only on matters of fact.
- (d) Costs may be increased.



## Communication with Those Charged with Governance

'Those charged with governance' is defined by ISA 260 as 'the person(s) or organisation(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity'.

'Management' is defined by ISA 260 as 'the person(s) with executive responsibility for the conduct of the entity's operations'.



## Communication with Those Charged with Governance

Communication with those charged with governance is important because:

- It assists the auditor and those charged with governance to understand audit-related matters in context and allows them to develop a constructive working relationship.
- It allows the auditor to obtain information relevant to the audit.
- It assists those charged with governance to fulfil their responsibility to oversee the financial reporting process, thus reducing the risks of material misstatement in the financial statements.



## Communication with Those Charged with Governance

Matters to be communicated by auditors to those charged with governance

- The auditor's responsibilities in relation to the financial statement audit
- Planned scope and timing of the audit
- Significant findings from the audit
- Auditor independence

## ACCAspace F8 Note 2

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1. Please try to define the following concepts

corporate governance                      management  
executive directors  
non-executive directors  
audit committee  
those charged with governance

2. Please list the five principles of the UK Corporate Governance Code

3. What can audit committee do?

4. Please list the matters to be communicated by auditors to those charged with governance