



**NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY**

**FACULTY OF COMMERCE, HUMAN SCIENCES AND EDUCATION
DEPARTMENT OF ACCOUNTING, ECONOMICS & FINANCE**

QUALIFICATION : BACHELOR OF ACCOUNTING (HONOURS)	
QUALIFICATION CODE: 08BOAH	LEVEL: 8
COURSE CODE: GRE811S	COURSE NAME: CORPORATE GOVERNANCE, RISK AND ETHICS
SESSION: JUNE 2022	PAPER: THEORY
DURATION: 2¹/₂ HOURS	MARKS: 88

FIRST OPPORTUNITY QUESTION PAPER	
EXAMINER:	Dr Kofi Boamah
MODERATOR:	Mr Marko Tondota

INSTRUCTIONS	
<ul style="list-style-type: none">• This question paper is made up of THREE (3) questions.• Answer All the questions in blue or black ink.• You are advised to pay due attention to expression and presentation. Failure to do so will cost you marks.• Read over your answers before you hand in you your scripts.• Start each question on a new page in your answer booklet and show all your workings.• Questions relating to this paper may be raised in the initial 30 minutes after the start of the paper. Thereafter, candidates must use their initiative to deal with any perceived error or ambiguities and any assumption made by the candidate should be clearly stated.	

PERMISSIBLE MATERIALS: NONE

THIS QUESTION PAPER CONSISTS OF 5 PAGES (Including this front page)

QUESTION ONE

[25 marks]

Bob Green was fortunate to inherit some money and decided he wanted to invest for the long term in one or more investments so he would have a higher income in retirement. He was not a specialist in accounting and had little understanding of how investments worked.

Bob studied an investment website which suggested that he needed to be aware of the level of risk in an investment and also that he needed to know what his basic attitude to risk would be. This meant he needed to decide what his risk appetite was and then select investments based on that.

When Bob studied share listings in newspapers, he noticed that they were subdivided into sectors (e.g., banks, pharmaceuticals, mining, retail). He noticed that some sectors seemed to make higher returns than others and he wanted to know why this was. One website suggested that risks also varied by sector, and this was partly explained by the different business and financial risks which different sectors are exposed to.

One website said that if a potential investor wanted to know about any given company as a potential investment, the company's most recent annual report was a good place to start. This was because, it said, the annual report contained a lot of voluntary information, in addition to the financial statements. Bob could use this information to gain an understanding of the company's strategy and governance. The website suggested that the contents of the corporate governance section of the annual report would be particularly helpful in helping him decide whether or not to buy shares in a company.

Required

(a) Explain 'risk appetite' and 'risk awareness', and discuss how Bob's risk appetite might affect his choice of investments. (8 marks)

(b) Explain 'business risk' and 'financial risk' and discuss why risks might vary by sector as the website indicated. (8 marks)

(c) Distinguish, with examples, between **mandatory** and **voluntary** disclosure in annual reports, and assess the usefulness of corporate governance disclosure to Bob in selecting his investments. (9 marks)

(Total = 25 marks)

QUESTION TWO

[30 Marks]

'Help the Needy (HTN) is a charitable organisation established ten years ago. Its stated purpose is, 'to help individuals and families with social problems and related issues.' Its work, in a large city with people from many countries and backgrounds, involves advising, counselling, giving practical support to service users (the people who come for help). Over the years it has been operating, HTN has realised that the best outcomes are achieved when the staff member understands and sympathises with the service users' social norms, ethical and cultural beliefs.

40% of HTN's funding comes from local government. This means that HTN has to account for its use of that portion of its funding and comply with several rules imposed by local government. One of these rules concerns demonstrating appropriate diversity amongst the managers of services such as those delivered by HTN. It requires the charity management team to involve the widest feasible range of people and to reflect the demographic make-up of the community.

HTN has recently had to replace a number of executive and non-executive members of its board. The external auditor suggested that setting up a nominations committee would help in these board appointments. The CEO, Marian Ngogo, has always stressed that all directors should share the ethical values of HTN and agree to take reduced rewards because, 'every dollar we pay a director is a dollar less we are spending on service delivery.' She stressed that the culture in a charity was very different from a commercial ('for profit') business and that staff and directors must share the ethical stance of HTN and had to accept a different approach to social responsibility if they joined.

You are Required to:

(a) Explain any 4 of the roles of a nominations committee and describe how the Help-with-life (HTN) nominations committee might approach the task of nominating and appointing new directors. (10 marks)

(b) Explain the advantages of diversity on the board of HTN. (11 marks)

(c) Explain 'corporate social responsibility' (CSR) and discuss the ways in which CSR and the ethical stance might differ between HTN and a commercial 'for profit' business. (10 marks)

Total = 31 marks)

QUESTION THREE

[32 mks]

Namene (PtY) Ltd. is a large chemical manufacturer. Due mainly to the size of the workforce and its turnover, the company has a high public interest score. Evans Elago, the chief executive officer of the company has called you as an expert in corporate governance, to a meeting to clarify certain issues relating to corporate governance.

At the meeting Evans informed you that the company was coming under increasing pressure from a number of sources, including one of the company's shareholders, a listed company, to adhere to principles of corporate governance contained in King IV/NamCode on Corporate Governance. He concluded by saying "I personally think this corporate governance codes are a load of rubbish; we didn't have them 30 years ago and we don't need them now. But if there are superficial changes, I can make to make to keep everyone happy, I'll think about it. Our responsibility is to maximize profit for shareholders and not to spend them and do good causes".

Namene (PtY) Ltd. has always been a tightly run company. Evans Elago and his sons Elias and Oscar together have held 45% of the shares in the company since its inception in 1985. In addition to being shareholders, Evans Elago is the chairperson of the board and Elias and Adongo fill the roles of financial director and production director respectively.

The Evans' influence has always ensured the appointment of executive directors of their choice to fill the remaining two positions on the company's board, which are held by Jack Jones and Charles Smith. Even Evans insist on the board of directors being totally committed to and involve in the company. He demands that the directors work as a team to get the job done themselves without "engaging outsiders and forming committees".

The company's basic operational and reporting philosophy is one of secrecy and minimum disclosure. Evans Elago's reasons for adopting this philosophy are that in the highly competitive chemical industry, Namene (Pty) Ltd has a record of being more successful and profitable than any of its competitors. In his opinion, "the less information available to competitors and other parties, the better the company is able to protect this competitive advantage and limit exposure to groundless lawsuits and strikes by workers. As far as financial reporting goes, our policy has been to follow the requirements of IFRS to the extent necessary to satisfy the auditors. We are not interested in integrated reporting because our shareholders are simply not interested in masses of other useless information".

You are required to:

a) Briefly discuss the points you would raise to explain to Evans Elago why codes of corporate governance should not be regarded as a "load of rubbish". (10)

b) Comment on Evans Eligo's statement that "if there are superficial changes, I can make to keep everybody happy, I'll think about it".

(3)


c) List the instances of non-compliance with the recommended practices in King IV/NamCode pertaining to the existing of board of directors at Namene (Pty) Ltd.

(7)

d) Identify the board committees other than a remuneration committee, which Namene (Pty) Ltd should appoint to satisfy the recommendations of King IV/NamCode. Provide reasons as to why the appointment of each committee would be beneficial to Namene (Pty) Ltd.

(12)

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J.H. ...
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