



**PANJAB UNIVERSITY**  
OF SCIENCE AND TECHNOLOGY

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

<b>QUALIFICATION : BACHELOR OF ACCOUNTING (HONOURS)</b>	
<b>QUALIFICATION CODE: 08BOAH</b>	<b>LEVEL: 8</b>
<b>COURSE CODE: GRE811S</b>	<b>COURSE NAME: CORPORATE GOVERNANCE, RISK AND ETHICS</b>
<b>SESSION: JUNE 2022</b>	<b>PAPER: THEORY</b>
<b>DURATION: 2<sup>1</sup>/<sub>2</sub> HOURS</b>	<b>MARKS: 88</b>

<b>2<sup>ND</sup> OPPORTUNITY QUESTION PAPER</b>	
<b>EXAMINER:</b>	Dr Kofi Boamah
<b>MODERATOR:</b>	Marko Tondota

<b>INSTRUCTIONS</b>
<ul style="list-style-type: none"><li>• This question paper is made up of THREE (3) questions.</li><li>• Answer All the questions in blue or black ink.</li><li>• You are advised to pay due attention to expression and presentation. Failure to do so will cost you marks.</li><li>• Start each question on a new page in your answer booklet and show all your workings.</li><li>• 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.</li></ul>

**PERMISSIBLE MATERIALS: NONE**

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

**QUESTION ONE****(25 marks)**

DON (PTY) Ltd. is a large, listed company. When a non-executive directorship of DON Limited became available, Peter Shinana was nominated to fill the vacancy. John is the brother-in-law of DON's chief executive Ken Shilongo. John is also the CEO of Sammy Supplies Ltd, DON's largest single supplier and is, therefore, very familiar with DON and its industry. He has sold goods to DON for over 20 years and is on friendly terms with all of the senior officers in the company. In fact, last year, Sammy Supplies appointed DON's finance director, Susan Emmy, to a non-executive directorship on its board.

The executive directors of DON all know and like John and so plan to ask the nominations committee to appoint him before the next AGM.

Don (Pty) Ltd. has recently undergone a period of rapid growth and has recently entered several new overseas markets, some of which, according to the finance director, are riskier than the domestic market. Ken Shilongo, being the dominant person on the DON board, has increased the risk exposure of the company according to some investors. They say that because most of the executive directors are less experienced, they rarely question his overseas expansion strategy. This expansion has also created a growth in employee numbers and an increase in the number of executive directors, mainly to manage the increasingly complex operations of the company. It was thought by some that the company lacked experience and knowledge of international markets as it expanded and that this increased the risk of the strategy's failure. Some shareholders believed that the aggressive strategy, led by Ken Shilongo, has been careless as it has exposed DON Limited to some losses on overseas direct investments made before all necessary information on the investment was obtained.

As a large, listed company, the governance of DON is important to its shareholders. Dan More is one of DON's largest shareholders and holds a large portfolio of shares including 8% of the shares in DON. At the last AGM he complained to DON's chief executive, Ken Shilongo, that he needed more information on directors' performance. More said that he didn't know how to vote on board reappointments because he had no information on how they had performed in their jobs. Mr Shilongo said that the board intended to include a corporate governance section in future annual reports to address this and to provide other information that shareholders had asked for. He added, however, that he would not be able to publish information on the performance of individual executive directors as this was too complicated and not the concern of shareholders. It was, he said, the performance of the board as a whole that was important, and he (Mr Shilongo) would manage the performance targets of individual directors.

**You are required to:**

- (a) Explain the term 'conflict of interest' in the context of non-executive directors and discuss the potential conflicts of interest relating to DON and Sammy Supplies if Peter Shinana were to become a non-executive director of DON Limited. (8)
- (b) Assess the advantages of appointing experienced and effective non-executive directors to the DON board during the period in which the company was growing rapidly. (7)
- (c) Explain the typical contents of a 'best practice' corporate governance report within an annual report and how its contents could help meet the information needs of Dan More. (10)

**(Total = 25 marks)**

**QUESTION TWO**

(25 marks)

SwakopLtd, a large manufacturing company, wishes to appoint a number of non-executive directors to their Board. In doing so they wish to comply with the recommendations of The King IV Report on Corporate Governance. The existing Board is made up as follows:

Chairman and Chief Executive Officer	:	Paulus Xoagub
financial Director	:	Mark Shinana
Production Director	:	Samuel Masheko
Sales and Marketing Director	:	Claudia Davies
Operations Director	:	Elrich Trump
Non-executive Director	:	Henry Shiimi*

\*Henry Shiimi represents his uncle Paul Shiimi who has a 30% shareholding in Swakop Ltd. Paul Shiimi has the largest single holding in Swakop Ltd. The following individuals are being considered for appointment:

Adrin Victor	:	Prominent local businessman who is active in community projects
Simon Dongo	:	A recently retired engineer who had been consulted by Swakop Ltd on odd occasion.
Philip Shinana	:	A chartered accountant and son of Mark Shinana
Silva Kambinda	:	A partner in Swakop Ltd's audit firm (not the designated partner).
Elias Peters	:	The company's legal adviser since the company's inception.
Kauta Philips	:	A consultant in Swakop Ltd's line of business, who has no business relationship with Swakop Ltd.
Jonannes Serafi	:	A businessman and chairman of the local Chamber of Commerce.
Charles Anderson:		The owner of a small business which supplies Swakop Ltd with a number of components used in their manufacturing process. Charles Anderson's business is one of ten such small businesses which supply Swakop Ltd as a part of the company's social and business development initiatives. Swakop Ltd is his major customer.
Agnes Festus	:	The recently retired senior public relations manager at Swakop Ltd. This is a senior executive role.

Paulus Xoagub has asked you to advise him on "what should be done to get our Board right".

**You are required to:**

- (a) Comment on the composition of the existing Board of Swakop Ltd in terms of the recommendations of the King IV Code. (5)
- (b) Advise Paulus Xoagub on how the board of directors of Swakop Ltd should be reconstituted to satisfy the recommendations of the King IV Code. Your answer should indicate inter alia, which of the individuals being considered, should be appointed. Justify your choice. (20)

**QUESTION THREE** (38 marks)

Malta Ltd is a company listed on the NSX in the industrial/mining sector. The board regards sound corporate governance as very important and has ensured that the company has the necessary structures, policies and procedures in place. In general, the board follows a policy of delegating duties to board committees which consist of well qualified and experienced directors.

The board has the following committees inter alia, in place:

1. audit committee. (5)
2. nominations committee. (4)
3. remuneration committee. (4)
4. health, safety and environment committee. (4)

The board is constituted in the recommended manner with regard to race, gender, skills and the balance between executive and non-executive directors. In addition, Joe Ndlovu heads up a strong internal audit function and Karen Smith is the company secretary.

Martin Gibbs is the company's credit controller, and Reg Ngubane is the group purchasing manager.

One of the cornerstones of the company's corporate governance is the management of risk. Much attention has been directed at implementing a "risk awareness" culture into all aspects of the business and risk evaluation and response is an ongoing activity.

**You are required to:**

- a) briefly discuss four key risks facing the modern company. (10)
- b) discuss the role, if any, which each of the committees listed above plays in the management of risk at Malta Ltd (marks in brackets above). (18)
- c) discuss the role, if any, each of the four individuals mentioned in the question, should play in the management of risk at Malta Ltd. (12)

*Mark allocation for (c)*

- Joe Ndlovu (4)
- Karen Smith (2)
- Martin Gibbs (3)
- Reg Ngubane (3)



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P/Bag 13383  
Windhoek  
NAMIBIA

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