NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE, HUMAN SCIENCES AND EDUCATION

DEPARTMENT OF ECONOMICS, ACCOUNTING & FINANCE

QUALIFICATION: BACHELOR OF ACCOUNTING (HONOURS)	
QUALIFICATION CODE: 08BOAH	LEVEL: 8
COURSE CODE: GRE811S	COURSE NAME: CORPORATE GOVERNANCE, RISK AND ETHICS
SESSION: JUNE 2024	PAPER: THEORY AND APPLICATION
DURATION: 3 HOURS	MARKS: 100

FIRST OPPORTUNITY EXAMINATION QUESTION PAPER	
EXAMINERS:	Kuhepa Tjondu
MODERATOR:	Mr. M. Tondota

INSTRUCTIONS

- This question paper is made up of FOUR (4) questions.
- Answer All the questions and in blue or black ink.
- Show all your working in the answer sheet.
- 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

Non-programmable calculator/financial calculator

THIS QUESTION PAPER CONSISTS OF 6 PAGES (Including this front page)

QUESTION 1 **[25 MARKS]**

The independent board of governors of the state-funded Oukongo school for 11- to 16-year-old children met to consider its most recent set of public examination results. (The board of governors is an independent oversight body, comprised of local residents, parents and other concerned citizens).

One of the key responsibilities placed upon the school's governors is the delivery, to its local government authority, of a report on exam performance in a full and timely manner. A report on both the exam results and the reasons for any improvement or deterioration over previous years are required from the governors each year. Accordingly, the annual meeting on exam performance was always considered to be very important. Although the school taught the national curriculum (a standard syllabus taught in all schools in the country) as required of it, the exam results at Oukongo had deteriorated in recent years and on this particular occasion, they were very poor indeed.

In order to address the weaknesses in the school, Oukongo's budget had increased in recent years and a number of new teachers had been employed to help improve results. Despite this, exam performance continued to fal l. A recent overspend against budget was funded through the closure of part of the school library and the sale of a sports field.

One member of the board of governors was Sally Murorua. She believed that the local government authority might attempt to close Oukongo school if these exam results were reported with no convincing explanation. One solution to avoid this threat, she said, was to either send the report in late or to select only the best results and submit a partial report so the school's performance looked better than it actually was. There is no central computerised exam results service in the country in which Oukongo is located by which the local authority could establish the exam performance at Oukongo school.

A general feeling at the governors' meeting was that the school needed some new leadership, and it might be time to remove the existing headteacher. Mr Mbeze had been in the role for many years and his management style was thought to be ineffective. He was widely liked by staff in the school because he believed that each teacher knew best how to manage their teaching, and so he tried not to intervene wherever possible. Mr Mbeze had sometimes disagreed with the governors when they suggested changes which could be made to improve exam performance, preferring to rely on what he believed were tried and tested ways of managing his teaching staff. He was thought to be very loyal to long-standing colleagues and had a dislike of confrontation.

Required:

(a) Explain, using evidence from the case, the characteristics which identify Oukongo school as a public sector organisation and assess how its objectives as a public sector organisation have not been met. **(10 marks)**

(b) Explain the roles of a board of governors in the governance of Oukongo school, and discuss, in the context of Sally Murorua's suggestion, the importance of transparency in the board of governors' dealings with the local government authority. **(9 marks)**

(c) Discuss the potential advantages to Oukongo school of replacing the headteacher as part of the process of addressing its problems. **(6 marks)**

QUESTION 2 [25 MARKS]

Khaimasen Co has been supplying and fitting premium bathrooms and kitchens in hotel chains throughout Wakanda for the past 20 years. The company started as a small family concern, but because of the rapid growth it experienced and an associated need for additional capital, it was recently listed on the national stock exchange via an initial public offering.To remain fully compliant with the Wakanda corporate governance code, the board established audit, remuneration and nomination committees which were solely populated by independent non-executive directors. However, it did not consider it necessary to create a separate risk committee because the board believed that the remit of the audit committee included all aspects of risk management policy. This explanation was formally submitted to the shareholders at Khaimasen Co's first general meeting, and the shareholders agreed with the board's proposal.

As part of its expansion strategy, the board of Khaimasen Co decided it needed to enter overseas markets, and in particular the developing country of Wakanda. The reason that Wakanda was selected as a suitable market was because it had experienced rapid economic growth and domestic prosperity following the discovery of rich, offshore mineral deposits. Unfortunately, this small island nation has never enjoyed stable democratic government and is notorious for corrupt business practices, with customs officials regularly demanding bribes from both importers and exporters. As a result, Wakanda has a poor international credit rating. In order to attract both domestic and foreign inward investment, the government of Wakanda operates with very low levels of indirect tax, which has stimulated the island's tourist industry and led in turn to a significant increase in hotel building.

Following a successful tendering exercise, Khaimasen Co was awarded the contract to supply all of the bathroom equipment for a 200-room hotel, currently under construction in a remote area of the island. The total value of the supply contract amounted to 1,800,000 Wakanda dollars and it was to be paid in three equal instalments as the bathrooms were delivered to the hotel. The contract assigns responsibility for shipping the goods the 3,000 km from Wakanda to the island solely with Khaimasen Co, and no payment will be made until an agreed volume of goods clears Wakanda customs. A further problem is that the Wakanda dollar is quite volatile, but recently it has been weakening against the Wakanda dollar. As all contract payments are to be made in Wakanda currency, Khaimasen Co is exposed to foreign exchange risks.

The many contract-related issues amount to significant risks to Khaimasen Co, requiring effective management if the supply contract is to be a success and contribute to the company's ambitious growth targets.

Required:

(a) Explain the function and roles of a risk committee within an effective corporate governance framework, and discuss the advantages which a risk committee could add to the governance of Khaimasen Co. **(10 marks)**

(b) Explain the term risk appetite, and assess how the risk appetite of Khaimasen Co has influenced both its corporate strategy and the risks it has chosen to bear.

(7 marks)

(c) Explain how Khaimasen Co could effectively control the strategic and operational risks which arise from the Wakanda supply contract. **(8 marks)**

QUESTION 3 [25 MARKS]

When Mbakondja Co (a listed company involved in water supply) decided to establish an internal audit function, in line with new listing rules, the board approached Nameva Ndzana, an external consultant. She explained that internal audit is especially important in highly regulated industries but that it could also offer benefits to companies regardless of the industry context.

Nameva was particularly keen to talk to John Musimane, the head of the audit committee. John explained that because Mbakondja Co was a water supply company and was thus highly regulated, he considered it important that all of the members of the audit committee were professional water engineers so that they fully understood the industry and its technical challenges. All three members of the audit committee were non-executive directors and all were recently retired members of the Mbakondja executive board. When Nameva asked about the relationship with external auditors, John said that they had an 'excellent' relationship, saying that this was because the external audit practice was run by the Chair's son-in-law.

Nameva said that one of the essential functions of internal audit is to provide assurance that the internal controls which underpinned financial reporting are effective. She said that effective internal controls are necessary for maintaining the integrity of financial reporting and that the new internal audit function could help with that.

Required:

(a) Discuss the importance of internal audit in a highly regulated industry such as the water industry in which Mbakondja Co operates. **(7 marks)**

(b) Answer the following questions:

(i) Assess the ways in which Mbakondja Co's audit committee has failed to meet best practice. **(6 marks)**

(ii) Explain why the audit committee is responsible for overseeing the internal audit function. **(6 marks)**

(c) Discuss how effective internal controls can provide assurance on the integrity of financial reporting. **(6 marks)**

QUESTION 4 [25 MARKS]

A technological failure occurred at Lebo Company last year. A new computer system which was designed to control Lebo's complicated operational facility broke down shortly after it was installed. This meant that the company was unable to carry out production processes normally for several days.

The cause of the failure was later found to have been a system specification error made by Frank Mboma, the operations director and a professional engineer. He had seriously miscalculated the capacity needed for the new system and had ordered a computer system which was unfit for purpose. Not only had this resulted in the loss of several days of production and a loss of loyalty and goodwill from customers and others, it also cost a large amount to repair and upgrade the system to be able to cope with the actual demands placed upon it.

Frank Mboma acknowledged that he had over-ridden normal procurement procedures in purchasing the system. But he was thought by his colleagues to be such a competent engineer, it was not felt necessary for anybody else in the company to discuss the purchase with the suppliers. His fellow directors believed that Mr Mboma would exercise the judgement needed to purchase and implement the new system. Because the system was needed urgently, there was no time to run it in 'pilot mode' or to test it on site before it was fully installed. When he was asked about the failure, Frank Mboma said that he decided to buy the system in question because an old friend had recommended it and that he saw no need to take further advice beyond that.

The non-executive directors met after the incident and collectively decided that Frank Mboma, who had nine months remaining on his renewable three-year contract, had lost the confidence of the board and should leave the company at the earliest opportunity. It was decided to move him to a non-critical role until such time as it was possible to remove him as cheaply as possible.

Required:

(a) Directors may leave the service of a board in several ways.

(i) Describe the main ways in which the directors of companies can leave the service of a board. **(3 marks)**

(ii) Justify an appropriate way for Frank Mboma to leave the board of Lebo Company, based on the circumstances of the case. **(5 marks)**

(b) Briefly explain 'technological risk' and discuss the problems which led to the technological failure at Lebo, commenting on how these might affect shareholder confidence in the entire board. **(8 marks)**