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: JULY 2024	**PAPER: THEORY AND APPLICATION**
DURATION: 3 HOURS	**MARKS: 100**

SECOND 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]**

There has been a debate in the country of Kama for some years about the most appropriate way to regulate corporate governance. Several years ago, there were a number of major corporate failures and 'scandals' caused in part by a number of single powerful individuals dominating their boards. Business leaders and policy makers were sceptical about a rules-based approach, and this led the Kama stock exchange to issue guidance in the 'Kama Code' as follows.

'Good corporate governance is not just a matter of prescribing particular corporate structures and complying with a number of rules. There is a need for broad principles. All stakeholders should then apply these flexibly to the varying circumstances of individual companies.'

Given the causes of the Kama corporate governance failures, there was a debate about whether the separation of the roles of Chair and Chief Executive should be made a legal requirement. This resulted in the stock exchange issuing guidance that whilst a rules-based or 'box ticking' approach would specify that 'the roles of Chair and Chief Executive officer should never be combined... We do not think that there are universally valid answers on such points.'

One company to take advantage of the flexibility in Kama's principles-based approach was Kudu Co. In July 2022, Kudu Co announced that it had combined its roles of Chair and Chief Executive in a single role carried out by one individual. In accordance with the Kama listing rules, it made the following 'comply or explain' statement in its 2023 annual report.

'Throughout the year the company complied with all Kama Code provisions with the exception that from 1 July 2022 the roles of Chair and Chief Executive have been exercised by the same individual, William Kamatiseb. We recognise that this has been out of line with best practice. We understand the concerns of shareholders but believe that we have maintained robust governance while at the same time benefiting from having Mr Kamatiseb in control. On 31 July 2024 Mr Kamatiseb will step down as executive Chair, remaining as Chair until we conclude our search for a non-executive Chair to succeed him, no later than March 2025.'

Required

(a) Briefly distinguish between rules- and principles-based approaches to corporate governance. Critically evaluate the Kama stock exchange's guidance that 'all stakeholders should then apply these flexibly to the varying circumstances of individual companies.' **(12 marks)**

(b) Explain why a separation of the roles of Chair and Chief Executive is considered best practice in most jurisdictions. **(8 marks)**

(c) Assess the 'comply or explain' statement made by Kudu Co in its 2023 annual report. **(5 marks)**

QUESTION 2 **[25 MARKS]**

It was the final day of a two-week-long audit of Van Buren Company, a longstanding client of Fillmore Pierce Auditors. In the afternoon, Anne Hayes, a recently qualified accountant and member of the audit team, was following an audit trail on some cash payments when she discovered what she described to the audit partner, Zachary Lincoln, as an 'irregularity'. A large and material cash payment had been recorded with no recipient named. The corresponding invoice was handwritten on a scrap of paper and the signature was illegible.

Zachary, the audit partner, was under pressure to finish the audit that afternoon. He advised Anne to seek an explanation from Frank Monroe, the client's finance director. Zachary told her that Van Buren was a longstanding client of Fillmore Pierce and he would be surprised if there was anything unethical or illegal about the payment. He said that he had personally been involved in the Van Buren audit for the last eight years and that it had always been without incident. He also said that Frank Monroe was an old friend of his from university days and that he was certain that he wouldn't approve anything unethical or illegal. Zachary said that Fillmore Pierce had also done some consultancy for Van Buren so it was a very important client that he didn't want Anne to upset with unwelcome and uncomfortable questioning.

When Anne sought an explanation from Mr Monroe, she was told that nobody could remember what the payment was for but that she had to recognise that 'real' audits were sometimes a bit messy and that not all audit trails would end as she might like them to. He also reminded her that it was the final day and both he and the audit firm were under time pressure to conclude business and get the audit signed off.

When Anne told Zachary what Frank had said, Zachary agreed not to get the audit signed off without Anne's support, but warned her that she should be very certain that the irregularity was worth delaying the signoff for. It was therefore now Anne's decision whether to extend the audit or have it signed off by the end of Friday afternoon.

Required:

(a) Explain why 'auditor independence' is necessary in auditor-client relationships and describe three threats to auditor independence in the case. **(9 marks)**

Anne is experiencing some tension due to the conflict between her duties and responsibilities as an employee of Fillmore Pierce and as a qualified professional accountant.

(b) (i) Compare and contrast her duties and responsibilities in the two roles of employee and professional accountant. **(6 marks)**

(ii) Explain the ethical tensions between these roles that Anne is now experiencing.

(4 marks)

(c) Explain how absolutist (dogmatic) and relativist (pragmatic) ethical assumptions would affect the outcome of Anne's decision. **(6 marks)**

QUESTION 3 **[25 MARKS]**

At a board meeting of NPF Chemicals Limited, the directors were discussing some recent negative publicity arising from the accidental emission of a chemical pollutant into the local river. As well as it resulting in a large fine from the courts, the leak had created a great deal of controversy in the local community that relied on the polluted river for its normal use (including drinking). A prominent community leader spoke for those affected when she said that a leak of this type must never happen again or NPF would suffer the loss of support from the community. She also reminded NPF that it attracts 65% of its labour from the local community.

As a response to the problems that arose after the leak, the NPF board decided to consult an expert on whether the publication of a full annual environmental report might help to mitigate future environmental risks. The expert, Professor Akande (a prominent academic), said that the company would need to establish an annual environmental audit before they could issue a report. He said that the environmental audit should include, in addition to a review and evaluation of NPF's safety controls, a full audit of the environmental impact of NPF's supply chain. He said that these components would be very important in addressing the concerns of a growing group of investors who are worried about such things. Professor Akande said that all chemical companies had a structural environmental risk and NPF was no exception to this. As major consumers of natural chemical resources and producers of potentially hazardous outputs, Professor Akande said that chemical companies should be aware of the wide range of ways in which they can affect the environment. CEO Keith Miasma agreed with Professor Akande and added that because NPF was in chemicals, any environmental issue had the potential to affect NPF's overall reputation among a wide range of stakeholders.

When the board was discussing the issue of sustainability in connection with the environmental audit, the finance director said that sustainability reporting would not be necessary as the company was already sustainable because it had no 'going concern' issues. He said that NPF had been in business for over 50 years, should be able to continue for many years to come and was therefore sustainable. As far as he was concerned, this was all that was meant by sustainability.

In the discussion that followed, the board noted that in order to signal its seriousness to the local community and to investors, the environmental audit should be as thorough as possible and that as much information should be made available to the public 'in the interests of transparency'. It was agreed that contents of the audit (the agreed metrics) should be robust and with little room left for interpretation – they wanted to be able to demonstrate that they had complied with their agreed metrics for the environmental audit.

Required:

(a) Explain 'sustainability' in the context of environmental auditing and criticise the finance director's understanding of sustainability. **(6 marks)**

(b) Explain the three stages in an environmental audit and explore, using information from the case, the issues that NPF will have in developing these stages. **(9 marks)**

(c) Define 'environmental risk'. Distinguish between strategic and operational risks and explain why the environmental risks at NPF are strategic. **(10 marks)**

QUESTION 4 **[25 MARKS]**

During the past three years, Anaconda, a large defence contractor, has been adversely affected by a series of internal control failures. These incidents resulted in major losses being incurred and brought the company to the brink of collapse. Although the threat of company failure now appears to have receded, the shareholders, who have seen their investment in the company decrease dramatically, recently replaced the board of directors. The new board is determined to ensure that the company avoids any such problem in the future and believes that this has to be done by the board demonstrating greater concern about the operation of internal controls and fulfilling relevant corporate governance requirements.

One particular problem Anaconda has had over the last couple of years is a total failure of its information systems. The new directors realise that if they are to review controls fairly, better information systems will be required. They have also noted the previous directors apparently heard nothing about employee concerns with the systems through the company's informal grapevine. The previous directors were only notified and took action after the control failures had occurred, which was too late.

The new board also wishes to focus on how Anaconda deals with changes in the risks that affect the company, since this has been a particular concern of its shareholders.

Required:

(a) Advise the new board of the key responsibilities of board members in relation to ensuring the effectiveness of internal controls. **(7 marks)**

(b) Explain the methods used to assess the effectiveness of controls and advise the board on the information required to support a fair assessment. **(12 marks)**

(c) Explore how the board should ensure that Anaconda is responsive to significant changes in the risks that it faces. **(6 marks)**

THE END