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: GRE 811S	COURSE NAME: CORPORATE GOVERNANCE, RISK MANAGEMENT AND ETHICS
DATE: JUNE 2025	PAPER: THEORY AND APPLICATION
DURATION: 3 HOURS	MARKS: 100

FIRST OPPORTUNITY EXAMINATION	
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MODERATOR:	Marko Tandota

INSTRUCTIONS

- This question paper is made up of FOUR (4) questions.
- Start each question on a new page.
- Answer All the questions and in blue or black ink.
- You are advised to pay due attention to expression and presentation. Failure to do so will cost you marks.
- Start each question on a new page in your answer booklet

PERMISSIBLE MATERIALS

Non-programmable calculator/financial calculator

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

Question 1

Tom Co is a family business that has been wholly-owned and controlled by the Tom family since 1920. The current chief executive, Mr Peter Tom, is the great grandson of the company's founder and has himself been in post as CEO since 1998. Because the Tom family wanted to maintain a high degree of control, they operated a two-tier board structure: four members of the Tom family comprised the supervisory board and the other eight non-family directors comprised the operating board.

Despite being quite a large company with 5,000 employees, Tom Co never had any non-executive directors because they were not required in privately-owned companies in the country in which Tom Co was situated.

The four members of the Tom family valued the control of the supervisory board to ensure that the full Tom family's wishes (being the only shareholders) were carried out. This also enabled decisions to be made quickly, without the need to take everything before a meeting of the full board.

Starting in 2008, the two tiers of the board met in joint sessions to discuss a flotation (issuing public shares on the stock market) of 80% of the company. The issue of the family losing control was raised by the CEO's brother, Mr Crispin Tom. He said that if the company became listed, the Tom family would lose the freedom to manage the company as they wished, including supporting their own long-held values and beliefs. These values, he said, were managing for the long term and adopting a paternalistic management style. Other directors said that the new listing rules that would apply to the board, including compliance with the stock market's corporate governance codes of practice, would be expensive and difficult to introduce.

The flotation went ahead in 2011. In order to comply with the new listing rules, Tom Co took on a number of nonexecutive directors (NEDs) and formed a unitary board. A number of problems arose around this time with NEDs feeling frustrated at the culture and management style in Tom Co, whilst the Tom family members found it difficult to make the transition to managing a public company with a unitary board. Peter Tom said that it was very different from managing the company when it was privately owned by the Tom family. The human resources manager said that an effective induction programme for NEDs and some relevant continuing professional development (CPD) for existing executives might help to address the problems.

Required

(a) Compare the typical governance arrangements between a family business and a listed company, and assess Crispin's view that the Tom family will 'lose the freedom to manage the company as they wish' after the flotation. (10 marks)

(b) Assess the benefits of introducing an induction programme for the new NEDs, and requiring continual professional development (CPD) for the existing executives at Tom Co after its flotation. (8 marks)

(c) Distinguish between unitary and two-tier boards, and discuss the difficulties that the Tom family might encounter when introducing a unitary board. (7 marks)

Question 2

A major corporate governance code contains the following entry on audit committees.

The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's external auditors.

The board should establish an audit committee of at least three, or in the case of smaller companies, two, independent non-executive directors. In smaller companies the company chairman may be a member of, but not chair, the committee in addition to the independent non-executive directors, provided he or she was considered independent on appointment as chairman. All audit committee members should be considered independent upon appointment to the committee. The board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience.

When Hasted Company floated on the stock exchange, it attempted to establish the audit committee required by the listing rules. It was unable to recruit a non-executive director with the requisite financial experience so it appointed experienced non-executive director, Pauline Rar, as the committee chairman. Pauline Rar was a technical engineer. She was appointed to the board of Hasted because of her expertise in the technology used by Hasted and she understood the company's business model and its systems. But she did not understand financial matters.

Pauline Rar told colleagues that she did not understand much about the concept of independence. She said that in her own field of engineering, colleagues inside and outside a certain company often supported each other and that this was often encouraged. As a community of specialists, they often found that helping each other was an important part of professional life over the years. Accordingly, she said she did not really understand why independence was important for audit committee members. She also said that she did not understand much about the company's relationship with the external auditors.

Required

(a) Define 'independence' in the context of audit committees, and explain why audit committee members should be 'considered independent' at the time of their appointment. (8 marks)

(b) Discuss how the inability of Hasted Company to recruit a person with 'recent and relevant financial experience' might threaten the effectiveness of the audit committee's contribution to shareholder value. (8 marks)

(c) Explain the nature of an 'appropriate relationship with the company's external auditors' and discuss how Hasted Company's audit committee should respond if it believes the relationship to be too close. (9 marks)

Question 3

The risk committee at Northern Continents Company (NCC) met to discuss a report by its risk manager, Stellar Field. The report focused on a number of risks that applied to a chemicals factory recently acquired by SCC in another country, Southland. She explained that the new risks related to the security of the factory in Southland in respect of burglary, to the supply of one of the key raw materials that experienced fluctuations in world supply and also an environmental risk. The environmental risk, Stellar explained, was to do with the possibility of poisonous emissions from the Southland factory.

The SCC chief executive, Koor Chung, who chaired the risk committee, said that the Southland factory was important to him for two reasons. First, he said it was strategically important to the company. Second, it was important because his own bonuses depended upon it. He said that because he had personally negotiated the purchase of the Southland factory, the remunerations committee had included a performance bonus on his salary based on the success of the Southland investment. He told Stellar that a performance-related bonus was payable when and if the factory achieved a certain level of output that Koor considered to be ambitious. 'I don't get any bonus at all until we reach a high level of output from the factory,' he said. 'So I don't care what the risks are, we will have to manage them.'

Stellar explained that one of her main concerns arose because the employees at the factory in Southland were not aware of the importance of risk management to SCC. She said that the former owner of the factory paid less attention to risk issues and so the staff was not as aware of risk as Stellar would like them to be. 'I would like to get risk awareness embedded in the culture at the Southland factory,' she said.

Koor Chung said that he knew from Stellar's report what the risks were, but that he wanted somebody to explain to him what strategies SCC could use to manage the risks. He was wary of excessive costs and therefore wanted Northern Continents to employ practical strategies to reduce risk as much as was reasonable.

Required

(a) Describe four strategies that can be used to manage risk and identify, with reasons, an appropriate strategy for each of the three risks mentioned in the case. (12 marks)

(b) Explain the meaning of Stellar's comment: 'I would like to get risk awareness embedded in the culture at the Southland factory.' (5 marks)

(c) Explain the benefits of performance-related pay in rewarding directors and critically evaluate the implications of the package offered to Koor Chung. (8 marks)

Question 4

Pee plc is a publicly quoted company. Its products are based on raw materials grown in tropical countries and processed either in these countries or in the eventual sales markets. Processing is undertaken partly by Pee plc and partly by sub-contractors. The products are branded and sold worldwide, but mainly in the United Kingdom and North America. They are sold to consumers through a very large number of outlets.

Pee's chief executive has always regarded annual reporting as ideally never exceeding legal requirements. However, the non-executive directors have for some time expressed concern that the company has not developed any systems of environmental or social reporting to shareholders, although many comparable companies already publish such information as part of their Annual Report. A government minister has now stated that legislation will be considered if all companies do not make progress on reporting on social and environmental policies. One non-executive director has raised the possibility of going further and preparing a report based on the principles of integrated reporting.

Required

(a) Identify the main issues that could be covered in the environmental and social report. (8 marks)

(b) Analyse the impact of business partners and other stakeholders on the content of the environmental and social report. (5 marks)

(c) Identify the information that the board requires to review the company's progress on environmental and social issues. (6 marks)

(d) Explore how an integrated report on Pee's activities could provide wider insights than an environmental and social report. (6 marks)