



**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 2023	PAPER: THEORY AND APPLICATION
DURATION: 3 HOURS	MARKS: 100

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

<p style="text-align: center;">INSTRUCTIONS</p> <ul style="list-style-type: none">• 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.
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PERMISSIBLE MATERIALS

Non-programmable calculator/financial calculator

THIS QUESTION PAPER CONSISTS OF 8 PAGES (Including this front page)

QUESTION 1

[25 MARKS]

The LPM High School has 900 pupils, 40 teachers, 10 support staff and a budget of N\$3 million per annum, 85% of which represents salary and salary-related costs. The Local Authority for LPM's area is responsible for 34 schools, of which six are high schools (educating pupils from the ages of 11 to 18). The Local Authority allocates National government funding for education to schools based on the number of pupils. Pupils are allocated to schools based on where they live.

LPM can take a limited number of extra pupils in a particular year if demand for places is particularly heavy. It ensures that the government-approved curriculum is taught in all schools in its area with the aim of achieving national targets. All schools, including LPM, are subject to an independent financial audit as well as scrutiny of their educational provision by the Local Authority, and reports of both are presented to the school Governing Body. The number of pupils determines the approximate number of teachers, based on class sizes of approximately 30 pupils. The salary costs for teachers are determined nationally and pay scales mean that more experienced teachers receive higher salaries. In addition, some teachers receive school-specific responsibility allowances.

LPM is managed on a day-to-day basis by the Head Teacher. The governance of each school is carried out by a Governing Body comprising the Head Teacher, elected representatives of parents of pupils, and members appointed by the Local Authority. The principles of good corporate governance apply to school Governing Bodies which are accountable to parents and the Local Authority for the performance of the school.

The Governing Body holds the Head Teacher accountable for day-to-day school management, but on certain matters such as building maintenance the Head Teacher will seek expert advice from the Local Authority. The Governing Body meets quarterly and has as its main responsibilities budgetary management, appointment of staff, and educational standards. The main control mechanisms exercised by the Governing Body include scrutiny of a year-to-date financial report, a quarterly non-financial performance report, teacher recruitment and approval of all purchases over N\$1,000. The Head Teacher has expenditure authority below this level.

The financial report (which is updated monthly) is presented to each meeting of the Governing Body. It shows the Local Authority's budget allocation to the school for the year, the expenditure incurred for each month and the year to date, and any unspent balances. Although there is no external financial reporting requirement for the school, the Local Authority will not allow any school to overspend its budget allocation in any financial year.

LPM's budget allocation is only just sufficient to provide adequate educational facilities. Additional funds are always required for teaching resources, building maintenance, and to upgrade computer equipment. The only flexibility the school has in budget management is to limit responsibility allowances and delay teacher recruitment. This increases pupil-contact time for individual teachers however, and forces teachers to undertake preparation, marking and administration outside of school hours. LPM High School has recently been contacted by the National

Government's Education department and asked if it wants to become an Academic Charter School. An Academic Charter School receives funding directly from the National Government and can also obtain some money from private sponsorship. Sponsors can include individuals, businesses or other organisations such as charities or religious foundations. The School will no longer receive money from its Local Authority and will be independent of Local Authority control. The School will be allowed to select up to 35% of pupils by aptitude and increase numbers to a maximum of 1,200. The Academic Charter programme has proved controversial and the Local Authority in LPM's area is strongly opposed to it.

NOTE: In this jurisdiction a Local Authority (or council) carries out services for the local community and levies local taxes (or council tax) to fund most of its operations. Many of the Local Authority functions are regulated by the National Government and considerable funding also comes from that source.

The range of Local Authority services includes education, community health, refuse collection, and maintenance of footpaths and public parks.

Required:

- (a)** Assess the structure and workings of the governing body currently in place at LPM High School, using corporate governance best practice. **(7 marks)**
- (b)** Assess whether the governing body of LPM High School appears to be receiving sufficient information to discharge its duties effectively. **(6 marks)**
- (c)** Examine the decision-making and communication processes used by the governing body to exercise control over LPM High School. **(6 marks)**
- (d)** Discuss the extent to which LPM High School's agency relationships would change if it became an Academic Charter School. **(6 marks)**

QUESTION 2

[25 MARKS]

Etherial is a listed company that manufactures, markets and distributes a large range of components throughout Europe and the United States of America, supplying products to over 0.5 million customers in 20 countries. Etherial holds stocks of about 100,000 different electronic components. Two years ago Etherial established a specialist components department ('SCD') to undertake the manufacture of customised components, such as a microprocessor that has been programmed with a specific set of instructions supplied by the customer. SCD can also make complex parts and assemblies. SCD does not generate a large proportion of Etherial's revenue, but it has been very profitable since it began three years ago because SCD can charge high profit margins. SCD employs 17 highly skilled technicians who work in a sophisticated electronics workshop.

Almost all of the work undertaken by SCD is 'jobbing work' ie for very small quantities, sometimes only a single unit. This is because SCD's customers often build prototypes of products that they plan to test before committing themselves to full-scale production. If the prototype is successful and the customer then requires larger quantities of the component SCD directs them to another division of Etherial.

SCD has been approached by DD, a specialist manufacturer of extremely expensive high performance cars. DD is in the process of developing a new car that will be one of the fastest in the world. The car will be designed to be driven on public roads, but the owners of such cars often take them to private race tracks where they can be driven at very high speeds. DD has designed an electronics system to enable an average driver to drive the car safely at high speed. The system will monitor the engine, brakes and steering and will compensate for errors that could cause a crash. The system will, for example, sense that the car is about to skid and will compensate for that. The electronics system will be based on a circuit board that DD wishes to have built by SCD.

Building DD's circuit board will pose a number of challenges for SCD. The circuit board will be subject to a great deal of vibration when the car is driven at speed. The cars are expected to last for a very long time and so there could be problems if the circuit boards deteriorate with age. The circuit board will be installed in an inaccessible part of the car where it will be difficult to inspect or maintain. Many of the components on the board will be manufactured by SCD, but some crucial components will be supplied by a third party that has already been selected by DD.

DD is prepared to order a large number of circuit boards but only if they are hand built by SCD. That is partly because the cars will not be built in sufficient volume to make it possible for another division of Etherial to mass-produce the boards and partly because DD wishes to be able to update and modify the design of the circuit boards in response to feedback from owners. SCD's Production Manager believes that the DD contract will create sufficient work to keep seven technicians almost fully occupied. SCD will have to recruit and train additional staff in order to service this contract.

When notifying the board of this significant opportunity, Etherial's chief executive emphasised the importance of thorough risk assessment, and reducing the risks

associated with the high-profile project to levels that were as low as reasonably practicable. However a newly appointed non-executive director pointed out that it would be difficult to measure many of the risks, and wondered if Etherial should focus on managing risks that could be measured precisely.

Required:

(a) Assess four significant risks associated with accepting the order from DD.

(9 marks)

(b) Explain the ALARP principle and advise the board on the steps it can take to reduce the risks identified in (a) to levels that are as low as reasonably practicable.

(9 marks)

(c) Explain the difference between subjective and objective risk perception, and criticise the non-executive director's view that the board should focus on managing risks that can be measured precisely.

(7 marks)

QUESTION 3

[25 MARKS]

In a major policy speech, Government finance minister Mrs Verii Tjikotoke said that the audit and assurance industry's work should always be judged by the effect it has on public confidence in business. She said that it was crucial that professional services such as audit and assurance should always be performed in the public interest and that there should be no material threats to the assurer's independence. Enron and other corporate failures happened, she said, because some accountants didn't understand what it was to act in the public interest. She stressed that it was important that firms should not provide more than one service to individual clients. If a firm audited a client then, she said, it shouldn't provide any other services to that client.

Mr Oliver Murundu, a financial journalist who had worked in audit and assurance for many years, was in the audience. He suggested that the normal advice on threats to independence was wrong. On the contrary in fact, the more services that a professional services firm can provide to a client the better, as it enables the firm to better understand the client and its commercial and accounting needs. Mrs Tjikotoke disagreed, saying that his views were a good example of professional services firms not acting in the public interest.

Mr Murundu said that when he was a partner at a major professional services firm, he got to know his clients very well through the multiple links that his firm had with them. He said that he knew all about their finances from providing audit and assurance services, all about their tax affairs through tax consulting and was always in a good position to provide any other advice as he had acted as a consultant on other matters for many years including advising on mergers, acquisitions, compliance and legal issues. He became very good friends with the directors of client companies, he said. The clients, he explained, also found the relationship very helpful and the accounting firms did well financially out of it.

Another reporter in the audience argued with Mr Murundu. Ivan Nangula said that Mr Murundu represented the 'very worst' of the accounting profession. He said that accounting was a 'biased and value laden' profession that served minority interests, was complicit in environmental degradation and could not serve the public interest as long as it primarily served the interests of unfettered capitalism. He said that the public interest was badly served by accounting, as it did not address poverty, animal rights or other social injustices.

Required:

(a) Explain, using accounting as an example, what 'the public interest' means as used by Mrs Tjikotoke in her speech. **(5 marks)**

Requirements **(b) and (c)** below concerns ethical threats. It is very important for professional accountants to be aware of ethical threats and to avoid these where possible.

(b) (i) With reference to the case as appropriate, describe five types of ethical threat. **(5 marks)**

(ii) Assess the ethical threats implied by Mr Murundu's beliefs. **(8 marks)**

(c) Assess Ivan Nangula's remarks about the accounting profession in the light of Gray, Owen & Adams' deep green (or deep ecologist) position on social responsibility. **(7 marks)**

QUESTION 4

[25 MARKS]

Namibia Railway Company (NRC) was considering two options for a new railway line connecting two towns. Route A involved cutting a channel through an area designated as being of special scientific importance because it was one of a very few suitable feeding grounds for a colony of endangered birds. The birds were considered to be an important part of the local environment with some potential influences on local ecosystems.

The alternative was Route B which would involve the compulsory purchase and destruction of Frekkie Stein's farm. Mr Stein was a vocal opponent of the Route B plan. He said that he had a right to stay on the land which had been owned by his family for four generations and which he had developed into a profitable farm. The farm employed a number of local people whose jobs would be lost if Route B went through the house and land. Mr Stein threatened legal action against NRC if Route B was chosen.

An independent legal authority has determined that the compulsory purchase price of Mr Stein's farm would be N\$1 million if Route B was chosen. NRC considered this a material cost, over and above other land costs, because the projected net present value (NPV) of cash flows over a ten-year period would be N\$5 million without buying the farm. This would reduce the NPV by N\$1 million if Route B was chosen.

The local government authority had given both routes provisional planning permission and offered no opinion of which it preferred. It supported infrastructure projects such as the new railway line, believing that either route would attract new income and prosperity to the region. It took the view that as an experienced railway builder, NRC would know best which to choose and how to evaluate the two options. Because it was very keen to attract the investment, it left the decision entirely to NRC. NRC selected Route A as the route to build the new line.

A local environmental pressure group, 'Save the Birds', was outraged at the decision to choose Route A. It criticised NRC and also the local authority for ignoring the sustainability implications of the decision. It accused the company of profiting at the expense of the environment and threatened to use 'direct action' to disrupt the building of the line through the birds' feeding ground if Route A went ahead.

Required:

(a) Use Tucker's 'five question' model to assess the decision to choose Route A.

(10 marks)

(b) Discuss the importance to NRC of recognising all of the stakeholders in a decision such as deciding between Route A and Route B.

(8 marks)

(c) Explain what a stakeholder 'claim' is, and critically assess the stakeholder claims of Frekkie Stein, the local government authority and the colony of endangered birds.

(7 marks)

THE END