



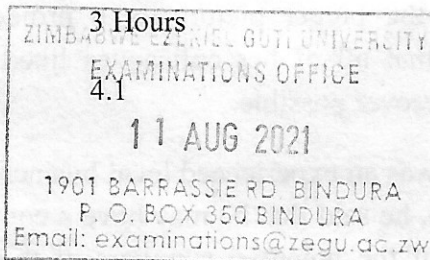
ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF ACCOUNTING AND FINANCE

EXAMINATION PAPER

COURSE CODE : CAC402
COURSE TITLE : CORPORATE GOVERNANCE AND PROFESSIONAL ETHICS FOR ACCOUNTANTS
DURATION : 3 Hours
LEVEL : 4.1
DATE :



INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue.
2. Answer all 4 questions. All questions carry equal marks
3. Start a new question on a new page.
4. Show all workings
5. The number of marks for each question or part question is shown in brackets []

Question One

Nyamwaka Company (NC) was launched early this year as a result of a scientific breakthrough at a university. The company was located in a relatively small regional city, some distance from the main centres of population. Because the initial capital needed was large, the scientists behind the company decided to float the company on the stock exchange and the take up of shares was very good. This meant that the initial capital needs were fully funded. The business itself was highly technical, with many shareholders only weakly understanding the science behind the company. Upon reading the share prospectus, some analysts believed that NC was a relatively risky business and that it could fail within two years unless a very good management team, including suitable non-executive directors (ideally locally based), was in place.

None of the scientists involved in NC had any experience of business before and had to learn about the roles of a board and how to effectively run a company. Dr Nyakurimwa Matamba, the lead scientist who made the scientific discovery, was thought to be the logical person to become chief executive but she herself questioned her suitability for the role. She said she was happiest working alone and in the quiet environment of her laboratory, and was not inclined to invest valuable time learning about running a business as she was not good at relating to a wide range of people.

Colleagues said of Nyakurimwa that, being a good scientist, she was excellent at detail but sometimes struggled to see the bigger picture on a project. Always popular, however, Nyakurimwa liked to think that all of her colleagues liked her and she tended to avoid confrontation and conflict wherever possible.

One potential director of NC was an experienced local businessman, Dr Chosani. Upon being approached about the position, he said that he may have a conflict of interest because he was a major shareholder in one of the potential suppliers of the capital equipment which NC would be purchasing.

Required:

(a) Assess Nyakurimwa Matamba's suitability to become chief executive officer (CEO) of Nyamwaka Company (NC). Your answer should include an explanation of the roles and personal qualities of a CEO. **[10 marks]**

(b) Explain the benefits, specifically to NC, of the appointment of 'suitable non-executive directors' and discuss the difficulties which the company may encounter in non-executive recruitment. **[9 marks]**

(c) Explain 'conflict of interest' and briefly discuss how a major shareholding in a potential supplier could be a conflict of interest to Dr Chosani were he to become a director of NC.

[6 marks]

[Total 25marks]

Question Two

After a recent financial crisis in the country of Koriland, there had been a number of high-profile company failures and a general loss of confidence in business. As a result, an updated corporate governance code was proposed, with changes to address these concerns.

Before the new code was published, there was a debate in Koriland society about whether corporate governance provisions should be made rules-based, or remain principles-based as had been the case in the past. One elected legislator, Steven Nzira, whose constituency contained a number of the companies that had failed with resulting rises in unemployment, argued strongly that many of the corporate governance failures would not have happened if directors were legally accountable for compliance with corporate governance provisions. He said that 'you can't trust the markets to punish bad practice', saying that this was what had caused the problems in the first place. He said that Koriland should become a rules-based jurisdiction because the current 'comply or explain' was ineffective as a means of controlling corporate governance.

Mr Nzira was angered by the company failures in his constituency and believed that a lack of sound corporate governance contributed to the failure of important companies and the jobs they supported. He said that he wanted the new code to make it more difficult for companies to fail.

The new code was then issued, under a principles-based approach. One added provision in the new Koriland code was to recommend a reduction in the re-election period of all directors from three years to one year. The code also required that when seeking re-election, there should be 'sufficient biographical details on each director to enable shareholders to take an informed decision'. The code explained that these measures were 'in the interests of greater accountability'.

Required:

(a) Examine how sound corporate governance can make it more difficult for companies to fail, clearly explaining what 'corporate governance' means in your answer. [10 marks]

(b) Steven Nzira believes that Koriland should become a rules-based jurisdiction because the current 'comply or explain' approach is ineffective as a means of controlling corporate governance.

Required:

Explain the difference between rules-based and principles-based approaches to corporate governance regulation, and argue against Steven Nzira's belief that 'comply or explain' is ineffective. [8 marks]

(c) Explain what 'accountability' means, and discuss how the proposed new provisions for shorter re-election periods and biographical details might result in 'greater accountability' as the code suggests. [7 marks]

[Total 25marks]

Question Three

After a period of expansion into several overseas markets and some structural decentralisation, Lodza Company was considering its internal audit and internal control needs. Although privately owned and therefore not subject to listing rules, Lodza's auditors had often suggested that a formal internal audit function would be beneficial.

The launch of several new products and a rapid increase in exports had raised a number of problems at Lodza. These included problems in meeting order deadlines, whilst a number of operational constraints had meant that some orders had been delivered to customers late. The increase in overseas business had also, according to Somanja Tunje, the financial director, increased the overall risk profile of the business. Credit risk had risen substantially as had a range of risks associated with exporting and overseas investment. In addition to a growth from 150 to 600 employees in its home country, Lodza also had recruited a further 200 people overseas in order to facilitate business in those countries.

As part of her continuing professional development (CPD), Somanja Tunje, the finance director who was also a professional accountant, had been to a seminar on improving internal controls (IC). She believed that at this point in its growth, Lodza could benefit from tighter internal controls. Speaking about this to the board on her return from the seminar, she reminded her colleagues that sound internal controls could only provide 'reasonable assurance' and that any IC system had inherent limitations and could never be totally effective whatever changes were made to improve them. This came as a surprise to some board members who assumed, because internal controls were often very expensive, that they should be guaranteed to be fully effective.

Required:

(a) Construct the case for establishing an internal audit function at Lodza Company.

[10marks]

(b) Explain the reasons why many internal controls can never be guaranteed to be fully effective and discuss why ICs being 'very expensive' are no guarantee of their effectiveness.

[9 marks]

(c) The finance director Somanja Tunje learned about improved internal controls as part of her continuing professional development (CPD).

Required:

Explain the advantages of continuing professional development (CPD) for professional accountants such as finance director Somanja Tunje.

[6 marks]

Question Four

(a) Describe the role and objectives of International Federation of Accountants (IFAC) and explain how it contribute to global financial stability through the International Ethics Standard Board of Accountants (IESBA). **[13 marks]**

(b) Critically elaborate on any four basic theories of Corporate Governance. **[12 marks]**
[Total 25marks]

END OF EXAMINATION QUESTION PAPER