



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF ACCOUNTING AND FINANCE

EXAMINATION PAPER

COURSE CODE : CAC 402/ CBM 402

COURSE TITLE : CORPORATE GOVERNANCE AND
PROFESSIONAL ETHICS

DURATION : 3 Hours

LEVEL : 4.1

DATE : 14 NOV 2019

INSTRUCTIONS TO CANDIDATES:

1. Section A is compulsory
2. Section B answer any THREE questions only.
3. Each question carries 25 Marks.
4. Start each question on a new page of your answer sheet.
5. Cell phones are NOT allowed

SECTION A (Compulsory)

Question 1 -Case study

Kentucky is a large listed company. When a non-executive directorship of Kentucky Limited became available, John Samatra was nominated to fill the vacancy. John is the brother-in-law of Kentucky's chief executive Ken Kelleys. John is also the CEO of Samatra Supplies Ltd, Kentucky's largest single supplier and is, therefore, very familiar with Kentucky and its industry. He has sold goods to Kentucky for over 20 years and is on friendly terms with all of the senior officers in the company. In fact last year, Samatra Supplies appointed Kentucky's finance director, Susan Schwab, to a non-executive directorship on its board. The executive directors of Kentucky all know and like John and so plan to ask the nominations committee to appoint him before the next AGM.

Kentucky has recently undergone a period of rapid growth and has recently entered several new overseas markets, some of which, according to the finance director, are riskier than the domestic market. Ken Kelleys, being the dominant person on the Kentucky board, has increased the risk exposure of the company according to some investors. They say that because most of the executive directors are less experienced, they rarely question his overseas expansion strategy. This expansion has also created a growth in employee numbers and an increase in the number of executive directors, mainly to manage the increasingly complex operations of the company. It was thought by some that the company lacked experience and knowledge of foreign markets as it expanded and that this increased the risk of the strategy's failure. Some shareholders believed that the aggressive strategy, led by Ken Kelleys, has been careless as it has exposed Kentucky Limited to some losses on overseas direct investments made before all necessary information on the investment was obtained.

At the last AGM some shareholders complained to Kentucky's chief executive, Ken Kelleys, that they needed more information on directors' performance to enable them to vote on board reappointments because no information was provided on how they had performed in their jobs. Mr Kelleys said that the board intended to include a corporate governance section in future annual reports to address this, however, he would not be able to publish information on the performance of individual executive directors as this was too complicated and actually not the concern of shareholders.

SECTION B (Answer any three (3) questions)

Question 2

- (a) With the aid of practical examples explain any **three (3)** core pillars of good corporate governance. **(6 marks)**
- (b) Describe the importance of a Corporate Secretary in ensuring sound and effective governance **(9 marks)**
- (c) Explain any two (2) approaches to improve the ethical conduct at the workplace **(10 marks)**

[Total 25 marks]

Question 3

For an organisation to be functional it needs functional board committees. Outline the roles of the main board committees.

[Total 25 marks]

Question 4

- (a) What are the roles of internal auditors? **(8 marks)**
- (b) Outline any five issues that compromise the independence of auditors clearly showing how they can be resolved. **(10 marks)**
- (c) Explain and explore the nature of the principal agent relationship in the context of corporate governance. **(7 marks)**

[Total 25 marks]

Question 5

- (a) Explain and assess the major areas of organizational life affected by issues of corporate governance. **(10 marks)**
- (b) What is corporate social responsibility in the context of corporate governance and what are the benefits of such a practice. **(15 marks)**

[Total 25 marks]

THE END

Required

(a) Explain the term 'conflict of interest' in the context of non-executive directors and discuss the potential conflicts of interest relating to Kentucky and Samatra Supplies if John Samatra were to become a non-executive director of Kentucky Limited.

(8 marks)

(b) Assess the advantages of appointing experienced and effective non-executive directors to the Kentucky board during the period in which the company was growing rapidly.

(8 marks)

(c) Explain the typical contents of a 'best practice' corporate governance report within an annual report and how its contents could help meet the information needs of shareholders.

(9 marks)

[Total 25 marks]