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CS PART III SECTION 6

GOVERNANCE AND SECRETARIAL AUDIT

MONDAY: 30 November 2020.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

QUESTION ONE

POTS AND PANS LIMITED (PPL)

Pots and Pans Limited (PPL) is a fairly successful franchise food retailer that has rarely been out of the news in the last year. The company's admission in September 2018 that it had understated its half year profits by Sh.89 million in an attempt to under pay royalties to the Franchiser has raised questions about the competency and composition of the company's board of directors (BOD) and the use of inappropriate accounting policies. Prior to the appointment of two non-executive directors on 7 October 2019, PPL's board did not have independent directors leave alone having any with a financial management background and experience. This weakness in financial expertise suggested the board was unlikely to have the necessary knowledge and expertise to effectively question and challenge the company's executives on financial matters.

While the external auditors in the company's 2017 annual report and financial statements discussed the "risk of manipulation" in the recognition of business income, this did not prevent the company from treating a contingency liability as having crystallised and being treated as an actual cost which understated the anticipated profits. The accounting treatment adopted was, one would assume, accepted by the audit committee and the profit figures subsequently signed-off by the board. The issue only subsequently emerged when one of the company's employees questioned the accounting treatment under the company's whistle blowing programme.

A media correspondent, writing about PPL in a weekly business magazine, suggested the issues of board composition and income and cost recognition point to failure in the current system of corporate governance of PPL. He pointed out that although the codes of Corporate Governance do not expressly require non-executive directors to have financial management experience, the adoption of inaccurate estimates of business income and treatment of costs reflects a "failure to establish adequate regulatory mechanisms for curbing abuses of corporate power". He suggested that reform is urgently needed and regulators needed to move in with speed. He recommended the immediate constitution of a board audit and risk committee at PPL.

On 30 November 2018, PPL held an extraordinary general meeting to update and reassure investors on its financial position. The company acknowledged that its profits had been understated by Sh.89 million against an initial estimate of Sh.150 million. The understatement was the result of a deliberate incorrect recognition and treatment of a contingency liability. Together with updating the investors on its results, the company announced that the chairman of the board would be stepping down from his position and that the board had suspended the Chief Executive Officer (CEO) and that the Chief Operating Officer (COO) would take over in an acting capacity until a new substantive CEO was recruited.

On 4 December 2018, the capital markets regulator and the Economic Crimes Bureau announced they had launched a criminal investigation into the alleged accounting irregularities at PPL. In early January 2019, the shareholders held another extraordinary meeting and resolved to appoint a governance auditor to carry out a comprehensive audit into the governance practices at PPL.

Required:

- (a) As the Governance Auditor appointed by PPL, advise the shareholders of PPL on five ways on how sound corporate governance practice could make it more difficult for companies to experience malpractices and imminent failure. (5 marks)
- (b) Explain to the directors of PPL their responsibilities on financial reporting. (5 marks)

- (c) Examine five ways in which non-executive directors (NEDs) could be made more effective and independent. (5 marks)
- (d) Discuss five roles of the audit and risk committee that the regulator recommended to be reconstituted at PPL. (5 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Explain how a governance auditor would rely on information obtained from the following sources in the process of conducting a governance audit:
- (i) In-house certified secretary. (4 marks)
- (ii) Regulatory oversight bodies. (4 marks)
- (b) Analyse four roles that the Institute of Certified Secretaries (ICS) is expected to play in governance and secretarial audit practice. (8 marks)
- (c) In the course of planning for a governance audit, among the activities to be undertaken by the governance auditor before the actual process of audit is to arrange a preliminary meeting with the client.
- Explain how such a meeting will be of benefit both to the governance auditor and the client. (4 marks)
- (Total: 20 marks)**

QUESTION THREE

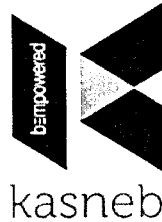
- (a) Governance audit tools cover the governance audit parameters within which the entity is subjected to audit.
- With reference to the above statement, propose seven such parameters within which governance audit is conducted. (7 marks)
- (b) Discuss four general principles of governance audit. (8 marks)
- (c) Examine five supporting documents that should accompany the self-assessment tool during the Institute of Certified Secretaries (ICS) Champion of Governance Award process for participating institutions. (5 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Analyse how the use of the work of experts could be applied by a governance auditor to make judgement on his findings. (3 marks)
- (b) Explain how the terms of engagement of a governance auditor in the context of form and content of the engagement letter may vary for different governance audits. (4 marks)
- (c) Explain five responsibilities of management in relation to governance control systems and risk management. (5 marks)
- (d) Discuss four post governance audit events that a governance auditor might include in the governance audit report. (8 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) With reference to Mwongozo, the Code of Governance for State Corporations, discuss five responsibilities of the board in stakeholder engagement. (5 marks)
- (b) Develop terms of reference (TOR) for a governance peer reviewer. (10 marks)
- (c) Suggest five recent drivers of good governance and secretarial audit in your country. (5 marks)
- (Total: 20 marks)**
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CS PART III SECTION 6

GOVERNANCE AND SECRETARIAL AUDIT

THURSDAY: 28 November 2019.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

QUESTION ONE

CITY IMPROVEMENT SUPPORT SERVICES LTD. (CISSL)

City Improvement Support Services Ltd. (CISSL) is a private company-limited by shares. It was incorporated 8 years ago by a group of professional service providers in the field of land economics. Each of the shareholders are either in private practice as Quantity Surveyors or employed in government in senior positions.

There are a total of 15 shareholders, all of whom hold equal number of shares. All shareholders are also registered as directors. Two of the shareholders and directors are able to offer at least two to four hours of their time on a daily basis to attend to CISSL matters. They collectively offer consultancy services to government and government agencies, private companies and individuals, as well as international bodies.

Day to day management is through an administrator who also maintains basic accounting records although he has no formal training in accounting. The company's external auditors send one of their staff once every month to help in the review of accounting records.

A team of five shareholders has been appointed to help oversee the day to day management of the company. They make decisions relating to operations and other urgent matters which would otherwise have needed a board's collective decision. They have scheduled to meet twice every month. They neither have an agreed agenda nor quorum for their meetings. Most of the time, any two available can meet and make such decisions. They give updates to the rest of the members every month by emails, and at the annual general meeting which they have faithfully held every year.

Required:

- (a) As a governance practitioner, suggest five measures that City Improvement Support Services Ltd. (CISSL) could employ to strengthen its governance practice. (5 marks)
- (b) Propose five potential risks in relation to the financial management practice adopted by CISSL. (5 marks)
- (c) In the last annual general meeting, the shareholders of CISSL resolved that the company should undergo a governance audit.

Discuss five challenges the governance auditor is likely to encounter in carrying out his role at CISSL. (10 marks)
(Total: 20 marks)

QUESTION TWO

- (a) The Capital Markets Authority (CMA) has issued the Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015, for application by both listed and unlisted public companies. The code provides for "equitable terms of shareholders" which includes the treatment of shareholders equally according to the rights conferred on them.

With reference to the above statement, summarise five rights of shareholders specified in the code, that the governance auditor should assess compliance with. (5 marks)

- (b) Explain two types of governance audits. (2 marks)
- (c) Discuss four professional principles that bind a governance auditor and his engagement team while conducting a governance audit. (8 marks)
- (d) Analyse five responsibilities of a client in helping a governance auditor conduct an efficient governance audit. (5 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) James Temoh is in the process of responding to a governance audit "Request for proposal" and is not clear as to why a potential client would call for a proposal from a governance auditor.
- Examine four possible reasons why a potential client would find it necessary to call for a request for proposal from a governance auditor. (4 marks)
- (b) Justify why a governance auditor, would be unable to sign off an audit opinion before receiving the letter of representation from the client. (4 marks)
- (c) Governance auditors do not generally find pleasure in issuing a qualified opinion. Suggest three circumstances under which the governance auditor might be forced to issue a qualified opinion. (6 marks)
- (d) Governance audit evidence will help the governance auditor to make his judgment in arriving at his findings.
- Discuss the expectations of obtaining and reviewing governance audit evidence through:
- (i) Examination of physical evidence to the satisfaction of the governance auditor. (3 marks)
- (ii) Discussions and inquiries with the client. (3 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Explain the following governance audit approaches:
- (i) System-oriented approach. (2 marks)
- (ii) Problem-oriented approach. (2 marks)
- (iii) Result-oriented approach (2 marks)
- (b) You have been appointed as the governance auditor of a blue chip listed company. Analyse four internal governance controls that you would expect to determine whether the company has an effective governance system. (8 marks)
- (c) (i) Explain the meaning of "governance audit risk". (2 marks)
- (ii) Explain four reasons why liability of a governance auditor would accrue while preparing a governance audit report for a statutory audit. (4 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) You have just concluded the governance audit review of a listed company and issued a report, although it has not been published.
- Required:**
Explain how you would handle the following events that have come to your attention:
- (i) A major shareholder has disposed of his shares and the matter has been widely reported in the media. (4 marks)
- (ii) The company's Chief Executive Officer (CEO) has resigned from the company in unclear circumstances. (4 marks)

- (b) The Institute of Certified Secretaries (ICS) has issued a governance audit peer review mechanism (CG004). The guideline provides for the audit of a governance auditor by another governance auditor.

With reference to the above statement, analyse three major outcomes expected from a peer review process.

(6 marks)

- (c) In both the Governance Audit Tool and ICS Governance Award, the concept of sustainability has been given emphasis as an important parameter.

In relation to the above statement, discuss how sustainability is supported by the following practices in the organisation:

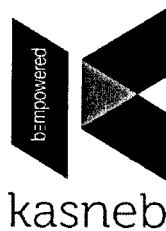
- (i) Board performance evaluation. (2 marks)

- (ii) Preparation of a human resource and talent management policy. (2 marks)

- (iii) Business continuity planning. (2 marks)

(Total: 20 marks)

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CS PART III SECTION 6

GOVERNANCE AND SECRETARIAL AUDIT

FRIDAY: 24 May 2019.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

QUESTION ONE

MOTOKAA HAULERS LIMITED (MHL)

Motokaa Hauliers Limited (MHL) is a medium sized road haulage company which is likely to be seeking a securities exchange listing within the next three years. In preparation for the listing, the directors are seeking to understand certain key governance requirements of local and international governance codes. They are aware that a listing at the securities exchange will require strengthening corporate governance processes in the company. In particular, directors require knowledge and information on the following governance code requirements:

- Role of non-executive directors.
- Transparency and disclosure in financial reporting.
- Stakeholder relationships and management.
- The role of internal and external auditing functions.
- Protection of shareholders interests.
- Compliance with laws and regulations.

Currently, directors derive most of their remuneration from the company in form of salary and they have been determining salary levels amongst themselves. They have realised they need to establish a remuneration committee but they are unsure of its role and if it will function effectively. The directors have also worked together well, though informally, there is lack of a formal reporting and control system both at the board and lower levels of management.

The company does not have a corporate secretary and only pays one on a transactional basis when they need to file statutory returns. Meetings are held on an ad hoc basis when there is need and no formal minute writing is done, instead each director comes with a notebook to note key decisions made.

There is also no internal audit department or oversight role by the board on audit matters. Board processes are not documented and sometimes key decisions about the company are made through consultation by phone. The company has established a contingency fund to take care of emergencies such as accidents and litigation claims against the company.

The company has approved you as an accredited governance auditor to perform a benchmark governance audit and suggest key recommendations on how to enhance corporate governance. You have completed the audit and are ready to discuss the draft report with the directors of the company.

Required:

- Justify to the directors of Motokaa Hauliers Ltd. (MHL) five responsibilities of the remuneration committee in improving corporate governance. (5 marks)
- Advise the directors of MHL on five responsibilities of the board in relation to risk management. (5 marks)
- Discuss with the directors of MHL, five roles of independent directors in enhancing good corporate governance. (5 marks)
- Advise the directors of MHL on the need for a corporate secretary in enhancing good corporate governance. (5 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Summarise six differences between “secretarial audit” and “financial audit”. (6 marks)
- (b) Distinguish between a “governance audit plan” and a “governance audit programme”. (4 marks)
- (c) Discuss four sources of governance audit criteria. (4 marks)
- (d) With reference to governance control and compliance, examine three types of inherent audit risk that the governance auditor could expect during auditing. (6 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Assess three provisions included in the governance audit engagement letter in relation to the ownership rights and control of working papers. (6 marks)
- (b) Summarise three objectives of the Institute of Certified Secretaries (ICS) in awarding Corporate Governance Awards. (3 marks)
- (c) Discuss five initiatives that could be put into consideration in order to improve the quality of governance audit and corporate transparency. (5 marks)
- (d) Analyse six matters that a governance auditor might be interested in when reviewing minutes of the Board of Directors. (6 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Discuss five post governance audit events that a governance auditor might include in the governance audit report. (5 marks)
- (b) Assess five professional responsibilities of a peer- reviewer in governance auditing. (5 marks)
- (c) Examine five possible impacts of a qualified governance audit report. (5 marks)
- (d) Analyse five components of a governance audit report. (5 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Analyse four attributes of audit evidence that a governance auditor might use for audit opinion. (4 marks)
- (b) Evaluate six indicators of fraud that a secretarial auditor needs to observe while conducting fraud investigations. (6 marks)
- (c) Describe the procedure of undertaking a governance and secretarial audit. (10 marks)

(Total: 20 marks)

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CS PART III SECTION 6

GOVERNANCE AND SECRETARIAL AUDIT

FRIDAY: 30 November 2018.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

QUESTION ONE

NGAMANI COMMERCIAL LIMITED (NCL)

Santa Mwangudza joined the board of directors of Ngamani Commercial Limited (NCL) that deals with consultancy in secretarial services and manufacturing of pharmaceutical products. She was invited to join the board of directors by the board chairman, her long-time friend and proprietor of the company.

Following her appointment, she began to learn about the activities of the company. However, there are still some aspects of operations and funding which are not clear to her. She is particularly concerned with the following:

- There exists some disagreements between the directors regarding the main mandate of the company. Some directors support the consultancy in secretarial services as the main activity while others support the manufacturing of pharmaceutical products.
- The board has held only one meeting since Santa was appointed three years ago. The board consists of four directors, one of whom is the wife of the chairman of the board and two independent directors.
- Most of the company policy decisions are made by the Chief Executive Officer (CEO) and his top management team.
- Since her appointment, Santa felt that she had made very little contribution as a director. Santa became frustrated after she was tasked severally by the board chairman to look for potential individuals or companies that could sponsor NCL with requisite funds. She does not consider that role to be within her area of responsibility as a board member.

Santa subsequently realised that NCL had been suffering from a decline in profitability in the past years due to rising administrative costs. The company and its activities were not well known by the members of the public. This had resulted into declining revenues due to lack of publicity and marketing. She believed that the Board was not paying due attention to two main areas namely, revenue and cost.

You are a corporate secretary who is conversant with the code of governance for private organisations. Santa has shared with you her concerns on governance issues in NCL.

Required:

- (a) Discuss five indicators that Ngamani Commercial Limited (NCL) might not be applying principles of good governance in its day to day operations. (10 marks)
 - (b) Summarise five roles that the independent directors of NCL were expected to discharge. (5 marks)
 - (c) Advise the Board of NCL on five measures it could take in order to fulfil its role. (5 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) A governance audit engagement letter is a contract for services between the governance auditor and the auditee.

Describe five key issues that should be addressed in the governance audit engagement letter. (5 marks)

- (b) Recent years have witnessed increased incidences of procurement fraud.

With reference to Mwongozo: "The code of governance for state corporations", or equivalent document in your country, discuss five board governance practices with respect to procurement processes. (5 marks)

- (c) Governance audit approaches and reports should not address management and shareholder interests only.

With reference to the above statement, identify five other stakeholders and determine their different uses of the governance audit report. (5 marks)

- (d) Increased regulatory oversight, agency enforcement and complexity in the regulatory environment have necessitated the creation of a compliance officer position in organisations.

Required:

Draft job description of a compliance officer in governance control management.

(5 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Before accepting a governance audit assignment, a governance auditor is required to carry out due diligence concerning his independence.

Explain four independence compliance requirements for a governance auditor.

(4 marks)

- (b) Evaluate four benefits of governance audit planning.

(4 marks)

- (c) Outline four contents of the current governance audit file.

(4 marks)

- (d) The Institute of Certified Secretaries (ICS) Champions of Governance (COG) Award is a voluntary best practice award for excellence in governance for organisations and individuals who have exhibited the highest standards of practice of good governance.

Explain four parameters that are evaluated in the ICS COG Award.

(4 marks)

- (e) Recent times have experienced spectacular corporate failures despite financial auditors issuing clean reports.

Assess how governance audits could be used to improve corporate audits.

(4 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) An audit cycle is a process that governance auditors employ in the review of a company's governance information.

In relation to the above statement, analyse the steps involved in governance audit cycle.

(10 marks)

- (b) Evaluate six factors that might be considered in developing governance audit strategy.

(6 marks)

- (c) Summarise four matters that a governance audit firm should put into consideration before accepting an audit engagement.

(4 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) (i) Describe the term "NOCLAR" as an international ethics standard for auditors.

(3 marks)

(ii) Discuss five key values of NOCLAR standard to corporate governance.

(5 marks)

- (b) The board of directors of XYZ Limited have appointed you to conduct a special governance audit as directed by the Government for a subsidiary of one of its public limited companies.

Required:

Examine six circumstances under which a government might order a special governance audit.

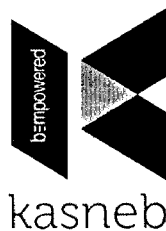
(6 marks)

- (c) "Governance and risk management is a responsibility of the board of directors". This statement was made by a governance auditor during an executive retreat for senior managers.

With reference to the above statement, analyse six responsibilities of management in relation to governance control systems and risk management.

(6 marks)

(Total: 20 marks)



CS PART III SECTION 6

GOVERNANCE AND SECRETARIAL AUDIT

FRIDAY: 25 May 2018.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

QUESTION ONE

UFANISI TECHNOLOGY LIMITED (UTL)

Ufanisi Technology Limited (UTL) is a listed company that designs and installs high technology computers used by multinational manufacturing companies.

UTL is located in one of the pacific countries with almost 90% of its sales being exported. UTL has branch offices in Europe, Asia, Africa, North America and South America and employs about 1,000 staff around the world. UTL has international patents covering its technology and invests heavily in research and development (R & D).

UTL has a majority shareholding held by Jack Rongoma, an entrepreneur who has a high risk appetite level. The UTL Board of directors constitutes four members who are effectively controlled by Jack Rongoma who is both the Chairman and Chief Executive Officer. The three other directors comprised his wife and two non-executive directors. One of whom occasionally provides consultation services to UTL while the other is long time family friend.

The Board meetings are held quarterly in an informal way through verbal review of sales activities. No minutes of the meetings are maintained. Jack Rongoma is a dominating individual who exercises a high degree of personal control, often bypassing his area managers.

Jack Rongoma is not concerned with short-term profits but with long-term returns. He emphasises on two objectives, sales growth to generate increased market share and cash flow and investment in R & D to ensure the long-term survival of UTL by maintaining patent protection and technological lead over its competitors. He is in daily contact with all his offices worldwide through telephone, travels extensively around the world and has an excellent knowledge of UTL's competitors and customers. He uses limited number of non-financial performance measures, primarily concerned with sales, market share, quality and customer satisfaction.

Jack Rongoma encourages a culture committed to growth, continual innovation and high levels of customer satisfaction which is reinforced by high salary levels. Staff who are not committed to his objectives are easily dismissed.

UTL has experienced rapid growth with increased profit for the last 10 years although cash flow is often low. A high sales margin is achieved because UTL is able to charge its customers premium prices. The computers sold by UTL guarantee high speed and better quality products than its competitors.

Jack Rongoma has little time for traditional accounting. Product costing is not seen as valuable because the cost of sales is relatively low and most costs incurred by UTL are incurred well in advance of sales being made.

Research and development costs are not capitalised in UTL's statement of financial position. Although budgets are used for expense control and monthly management accounts are produced, they have little relevance to Jack Rongoma who recognises the fluctuations in profit caused by the timing of sales of low volume.

Jack Rongoma places little value in comparing monthly profit figures against budgets because sales are erratic. However, he depends heavily on a spreadsheet to manage UTL's cash flow by using sensitivity analysis against his sales and cash flow projections. Cash flow is a major business driver and is controlled tightly using the spreadsheet model.

The major risks facing UTL have been identified as follows:

- Competitor infringement of patents, which UTL always meets by instituting legal actions.
- Adverse movements in the exchange rate between the home country and UTL's export markets.
- The reduction in demand for computers due to economic recession.
- Failure of continued R & D investment to maintain technological leadership.
- Failure to control costs.

Jack Rongoma believes that most of the above risks could be addressed by his policy of outsourcing services and continuous personal contact with staff, customers and competitors.

Required:

- (a) Critically evaluate the internal control challenges facing Ufanisi Technology Limited (UTL). (10 marks)
- (b) Write a report to the board of UTL recommending improvements to the company's risk management strategy. (10 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Subsequent events are those events, favourable and unfavourable, that occur between the reporting year date and the date when the governance audit reports are authorised for issue.

Required:

- Discuss four implications of an audit of subsequent events to the final governance audit report. (4 marks)
- (b) Assess four matters that a governance auditor is required to agree with an expert in writing before using the work of an expert and determining whether that work is adequate. (4 marks)
- (c) Outline six parameters which a governance audit should focus on in an organisation. (6 marks)
- (d) You are performing a governance audit of a company that recently forfeited some shares issued.
- Describe six areas to verify in the audit of securities for a company which has forfeited some shares. (6 marks)
- (Total: 20 marks)**

QUESTION THREE

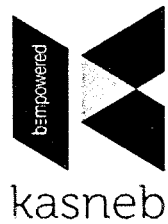
- (a) (i) Explain the term "agreed-upon procedures" as used in governance audit engagement. (2 marks)
- (ii) Highlight three characteristics of agreed upon procedures in a governance audit engagement. (3 marks)
- (b) Developments in information and communication technology (ICT) allow organisations to hold virtual board and committee meetings.
- Explain five contents of a policy on virtual meetings in relation to the governance standard on meetings. (5 marks)
- (c) Discuss five aspects that might be relied on by a governance auditor when sampling evidence to draw reasonable conclusions on which to base the audit opinion. (5 marks)
- (d) Assess five documents that might be required by a certified secretary in carrying out due diligence relating to a private company. (5 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) "If there is a need for a uniform set of international accounting standards and international auditing standards, then there is also a need for global corporate governance standards", remarks made by a Chief Executive Officer (CEO) attending a multinational conference on corporate governance.
- With reference to the above statement, discuss the need for global corporate governance standards. (12 marks)
- (b) The general principle is that for recurring governance audits, the governance auditor does not have to issue a new engagement letter.
- Explain four circumstances that might necessitate a governance auditor to issue a new engagement letter to an existing client. (8 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Highlight four components of a board evaluation. (4 marks)
- (b) Discuss the audit procedure a governance auditor should use to identify post governance audit events. (8 marks)
- (c) Examine four circumstances under which a governance auditor might be liable for damages suffered by a user who relied on the governance audit report in a statutory governance audit. (8 marks)
- (Total: 20 marks)**



CS PART III SECTION 6

GOVERNANCE AND SECRETARIAL AUDIT

FRIDAY: 1 December 2017.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

QUESTION ONE

SIGAMANYA LIMITED

Richard Kiti is the chairman of the board of directors of Sigamanya Limited, a public listed company in the technology sector. He also doubles up as the chairman of the nomination committee. The chairman has requested you as the company secretary of Sigamanya Limited to discuss the feedback received from the recent annual performance review of the board, its committees and the independent directors.

The Board consists of eight directors comprising the chairman, two executive directors and five independent non-executive directors. Among the directors of the board, only one is a female director. The external secretarial auditors who undertook the performance review of the board indicated several weaknesses with some of the non-executive directors (NEDs).

A recently appointed NED has complained to the auditors that she did not receive enough support from the company when she was appointed. According to her, being given copies of the minutes of past board meetings, being taken on a tour of several offices of the company and holding two meetings with the company secretary to discuss the company's affairs was not sufficient induction training.

Another NED was accused by fellow directors of wasting time at board meetings and committee meetings by talking for too long. It was also argued that he was not preparing adequately by reading the board papers before commencement of the meetings.

A third NED was accused by colleagues of failing to contribute adequately to discussions in board meetings. He was an ex-government minister who had some useful political connections which might benefit the company.

A fourth NED who was the chairman of the audit committee has been a board member for ten years. He had just finished the first year of a renewed three-year contract, subject to annual re-election by the shareholders.

The Chief Executive Officer (CEO) has also raised in confidence another problem. He stated that, at the moment there were just two executive directors on the board, the CEO and the Human Capital Director. The chief finance officer (CFO) had informed the CEO that the time was ripe for him to be appointed to the Board in order to further his career. If he does not get the appointment that he is hoping for, he will probably resign and look for boardroom opportunities with other companies. The CEO has reaffirmed that he does not want to lose the services of the chief finance officer.

Required:

- (a) Discuss three responsibilities of the board chairman of Sigamanya Limited in relation to the annual performance review of the board in compliance with the corporate governance code of your country. (6 marks)
- (b) Advise Richard Kiti on five measures he might consider, in response to the findings of the performance review of the directors of Sigamanya Limited in order to improve board effectiveness. (10 marks)
- (c) As the company secretary of Sigamanya Limited, discuss how you would respond to the request of the chief finance officer for an appointment to the board. (4 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Differentiate between “diversion of funds” and “siphoning of funds”. (4 marks)
- (b) You have been engaged by Waamini Limited, a company that is involved in the distribution of fast moving consumer goods to develop and recommend the implementation of annual board evaluation system in the company.
- Discuss five main steps you would adopt in working with the Board of Directors to implement an annual board evaluation system at Waamini Limited. (5 marks)
- (c) As a practicing Certified Secretary, generate five issues that are likely to inform your focus in a due diligence process where your client intends to invest significant amount of money in an existing business. (5 marks)
- (d) The board of Mwembeswere Ltd. has recently grown in size. The chairman of the board, Mongo Chilabu is considering how to enhance its effectiveness, particularly in terms of decision making.

The company operates in the information communication technology industry, a highly dynamic technical field. The board decisions are usually delayed due to a significant volume of technical questions raised at its board meetings. These questions have to be referred to the relevant technical team within the company or be directed to external advisors who had assisted in the research and development of the technology. Majority of the directors have also highlighted that the volume and complexity of the board papers is an issue. There is insufficient time to fully digest the information presented in the board papers prior to meetings.

Required:

As the company secretary, advise the board of Mwembeswere Ltd. on how to overcome the issues it is experiencing. (6 marks)
(Total: 20 marks)

QUESTION THREE

- (a) Elucidate the salient features of fraud risk management policy in a public limited company. (6 marks)
- (b) Internal audit has long been part of good corporate governance. Today, a growing number of boards, audit committees and management view the audit function as an important governance activity that offers significant benefits to the organisation. To achieve this potential, however, an internal audit must show superior levels of performance and effectiveness.

Required:

Assess the effectiveness of an internal audit function as a key player in corporate governance. (8 marks)

- (c) Many jurisdictions require listed companies to include a statement on their internal control systems in their annual reports. In some instances, there is need for the internal auditors and the board to report on the procedures used.

Required:

In relation to the above statement, describe good governance practices in reporting on internal control systems as per the corporate governance code of your country. (6 marks)
(Total: 20 marks)

QUESTION FOUR

- (a) (i) Describe the term “integrity pact”. (2 marks)
- (ii) Evaluate the monitoring mechanism under the integrity pact developed by Transparency International. (6 marks)
- (b) A practicing company secretary ignored some material discrepancies while issuing out a compliance certificate to a company.
- In relation to the above aspects, analyse the professional responsibility involved in issuing a compliance certificate. (6 marks)
- (c) Assess the significance of compliance of secretarial standards for good governance in organisations. (6 marks)
(Total: 20 marks)

QUESTION FIVE

- (a) A majority of the board of directors of Debby Ltd. have realised that some of the business activities carried out in the name of the company are not in the interest of either the company or its members.

The directors propose that the company should make an application to the court to appoint an inspector to carry out an investigation so as to find out the whole truth.

Required:

- (i) Examine the procedure that should be followed by the directors to get the company's affairs investigated as per the Companies Act. (4 marks)
- (ii) As the company secretary, draft the application to the court. (12 marks)
- (b) The directors of a public company are aware that they are likely to be prosecuted for an offence under the Companies Act which is not compoundable.

Assess the circumstances under which the directors could seek relief from the liability for the offence as provided under the Companies Act. (4 marks)

(Total: 20 marks)

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KASNEB

CS PART III SECTION 6

GOVERNANCE AND SECRETARIAL AUDIT

FRIDAY: 26 May 2017.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

QUESTION ONE

- (a) Explain the process to be followed in order to ensure that a governance audit is credible. (10 marks)
- (b) Discuss five parameters to be focused on while undertaking a governance audit. (10 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Discuss the stages to be followed when carrying out investigations in a forensic audit. (8 marks)
- (b) Summarise six issues that might be highlighted in a management letter in a governance audit. (6 marks)
- (c) Explain the importance of an audit review before preparing a governance audit report. (6 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Describe five items in the engagement letter which might help a governance auditor to carry out his role effectively. (10 marks)
- (b) Analyse the circumstances where a governance auditor might issue a qualified opinion. (3 marks)
- (c) Explain the circumstances under which an audit opinion might be revised. (3 marks)
- (d) Summarise four areas which a governance auditor and an expert in the specific area of the governance audit should agree upon prior to commencement of the audit. (4 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Outline five functions of the Institute of Certified Public Secretaries in your country. (5 marks)
- (b) Summarise five matters to be considered when carrying out a secretarial audit with regard to compliance with terms and conditions of listing agreement. (5 marks)
- (c) Outline five reasons that could lead to the withdrawal of a company secretary's practising certificate. (5 marks)
- (d) Discuss five ways in which a company secretary could minimise outstanding dividend and interest warrants in a company. (5 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Prepare a checklist of issues to be taken into account when issuing bonus shares in a listed company. (10 marks)
- (b) With reference to audit governance practices, explain the following compliance areas:
- (i) Accountability. (5 marks)
- (ii) Disclosure and transparency. (5 marks)
- (Total: 20 marks)**
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KASNEB

CS PART III SECTION 6

GOVERNANCE AND SECRETARIAL AUDIT

FRIDAY: 25 November 2016.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

QUESTION ONE

- (a) Discuss four provisions that might be contained in the guidelines on professional ethics and conduct that a certified secretary is bound to observe in the course of his work. (8 marks)
 - (b) Explain four advantages of engaging depository participants. (4 marks)
 - (c)
 - (i) Identify four possible hurdles that might be encountered while carrying out a legal compliance audit. (4 marks)
 - (ii) Explain how the hurdles identified in (i) above could be addressed. (4 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) As a certified secretary in practice with expert knowledge in governance and secretarial audits, discuss six factors that might prevent some boards of directors from exercising visionary leadership with entrepreneurial spirit, risk taking and strategic thinking. (6 marks)
 - (b) Discuss how secretarial audit can lead to better corporate governance in an organisation. (4 marks)
 - (c) Explain five areas that should be covered in a corporate social responsibility audit. (5 marks)
 - (d) Analyse the contents of a governance and secretarial audit report of a listed company. (5 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) You are the company secretary of a large company that has established milk processing and distribution units in many parts of the country.

Justify with four reasons why compliance under various environmental legislations is essential during strategic business decision making and sustainability. (4 marks)
 - (b) Explain the systems approach to compliance management in relation to the following functions in an enterprise:
 - (i) Compliance dashboard. (2 marks)
 - (ii) Policy and procedure management. (2 marks)
 - (iii) Internal corporate compliance systems. (2 marks)
 - (c) Outline six post governance audit events that a governance auditor might disclose in the governance audit reports. (6 marks)
 - (d) Explain four qualities of good governance audit evidence. (4 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) A multinational company is planning a merger with a local company and a cultural due diligence report is required by the multinational company's board before a merger decision can be made.

In relation to cultural aspects, examine the scope of due diligence which should be analysed. (10 marks)

- (b) The quality of board decision making is dependent on the quality of management information.

Describe the areas of management information which should be audited in order to ensure the robustness and completeness of the information presented to the board.

(10 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) The exercise of due diligence is not based on defined data but on the application of mind to a transaction.

Highlight the scope of due diligence in business transactions.

(5 marks)

- (b) Discuss four recent developments in advocating for good governance in your country.

(4 marks)

- (c) Summarise six challenges facing governance reforms in your country.

(6 marks)

- (d) You have just concluded the governance audit for Beta Company Limited. As the governance auditor you are required to issue a compliance certificate to the management of Beta Company Limited.

Prepare a certificate of compliance to be issued to the management of Beta Company Limited.

(5 marks)

(Total: 20 marks)

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KASNEB

CS PART III SECTION 6

GOVERNANCE AND SECRETARIAL AUDIT

FRIDAY: 27 May 2016.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

QUESTION ONE

- (a) Explain the role of the corporation secretary in relation to governance. (6 marks)
- (b) Discuss six significant governance deficiencies that might be identified in a governance audit. (10 marks)
- (c) Explain the importance of a governance audit engagement letter. (4 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Explain the measures that the board should ensure are put in place in order to manage risks in the organisation. (10 marks)
- (b) Analyse five elements of fraud in relation to governance. (10 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Explain five types of disclosure that a company should make when carrying out a governance audit. (10 marks)
- (b) Discuss the role of a central depository agent in relation to an investor. (3 marks)
- (c) Summarise the records that should be maintained by a depository agent. (4 marks)
- (d) Explain the main objectives of carrying out a forensic audit. (3 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Discuss the importance of a secretarial audit to an organisation. (5 marks)
- (b) Describe five stakeholders of a company stating how the stakeholders could benefit from a secretarial audit. (10 marks)
- (c) Analyse the areas that a secretarial auditor should focus on to ensure compliance. (5 marks)

(Total: 20 marks)

QUESTION FIVE

Discuss the functions of a company secretary in relation to professional practice.

(20 marks)

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CS PART III SECTION 6

GOVERNANCE AND SECRETARIAL AUDIT

FRIDAY: 27 November 2015

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

QUESTION ONE

The Board of Directors of ABC Ltd. are desirous of undertaking a governance audit and have requested your advice and guidance.

Required:

In relation to the above statement, advise the Board on the following:

- (a) The benefits of undertaking a governance audit. (6 mark)
 - (b) The key areas to focus on when undertaking the governance audit. (8 marks)
 - (c) Challenges that are likely to be encountered when undertaking the governance audit. (6 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) You have been engaged by a multinational organisation to undertake a governance audit. In order to accomplish the assignment, establish the following:
 - (i) The factors that could determine the amount of evidence required to ensure a comprehensive governance audit. (7 marks)
 - (ii) The limitations likely to be encountered when gathering the evidence for the governance audit. (7 marks)
 - (b) Explain the importance of adhering to the professional code of ethics and conduct when undertaking a governance audit. (6 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Discuss four issues relating to boards that could be addressed in a governance audit. (4 marks)
 - (b) Analyse the factors that should be taken into account when carrying out a board performance evaluation. (7 marks)
 - (c) Outline the role of standards in governance audit. (6 marks)
 - (d) Discuss the legal provisions governing the use of a common seal. (3 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) As an expert in the area of governance audit, explain the matters that should be included in a governance audit strategy. (10 marks)
 - (b) Outline five steps that should be followed when preparing to carry out a secretarial audit. (5 marks)
 - (c) Outline five roles of the Audit Committee. (5 marks)
- (Total: 20 marks)**

QUESTION FIVE

Your firm has been engaged to carry out a secretarial audit in a blue chip company.

Explain the matters that you would expect to find in relation to the register of members on the aspects listed below:

- (a) Contents of the register of members. (3 marks)
 - (b) Changes and alterations to the register of members. (3 marks)
 - (c) Legal provisions on inspection of the register of members. (8 marks)
 - (d) Rectification of the register of members. (6 marks)
- (Total: 20 marks)**
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KASNEB

CS PART III SECTION 6

GOVERNANCE AND SECRETARIAL AUDIT

PILOT PAPER

September 2015.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

QUESTION ONE

Pidit Commercial Bank Limited is a company incorporated in Kenya and operates in five other countries which include Rwanda, Uganda, Tanzania, Cameroon and Burundi. The company is currently cross listed in various securities exchanges in the countries where it operates.

Assuming that you are a partner at Craton and Associates Company Secretaries and the board of directors of Pidit Commercial Bank Limited has engaged your firm to conduct a secretarial audit:

(a) Write a secretarial audit report which should include the following:

- Basis of the secretarial audit.
- Scope of work.
- Methodology.
- Management responsibility.
- Auditors' responsibility.
- Opinion.

(12 marks)

(b) Describe eight annexures to the secretarial audit report.

(8 marks)

(Total: 20 marks)

QUESTION TWO

(a) Distinguish between "governance audit" and "board evaluation".

(4 marks)

(b) As the company secretary of Ibis Limited, justify to your board of directors the need for a board evaluation. (10 marks)

(c) Describe six items which should be verified while carrying out a board evaluation.

(6 marks)

(Total: 20 marks)

QUESTION THREE

(a) Assuming that you have conducted a governance audit for a state corporation in the education sector, draft a governance audit report to be presented to the board of directors. (10 marks)

(b) Discuss five merits and five demerits of conducting a governance audit.

(10 marks)

(Total: 20 marks)

QUESTION FOUR

(a) Show how the work of the following would assist a governance expert in conducting a governance audit for a listed company:

(i) In house company secretary.

(2 marks)

(ii) Internal auditors.

(2 marks)

(iii) External auditor.

(2 marks)

(iv) Audit and risk committee.

(2 marks)

(v) Regulatory bodies.

(2 marks)

(b) Prepare a checklist that a secretarial auditor would use while conducting a secretarial audit.

(10 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Describe five corporate laws that a secretarial auditor must be conversant with to enable him carry out an effective secretarial audit. (10 marks)
- (b) Analyse five requirements a company secretary in practice is expected to have in order to prepare an effective secretarial report. (10 marks)
- (Total: 20 marks)**
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