



## CS PART III SECTION 5

### GOVERNANCE AND ETHICS

**THURSDAY: 30 November 2017.**

**Time Allowed: 3 hours.**

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

#### QUESTION ONE

##### HAPPY VALLEY CLUB (HVC)

Happy Valley Club (HVC) is a private members club that was established in 1957 and registered as a company limited by guarantee. The club's board is made up of 15 directors who are all members of the club. The club has the following committees; membership committee, finance committee, nomination committee, banqueting committee, recruitment committee, governance committee, disciplinary committee and recreation committee. Each committee is made up of 5 members who also serve in more than one committee. Some of the committees have not met in the last 18 months. The chairperson of each committee determines the agenda, procedure of conducting meetings and frequency of meetings. Most committee meetings have been adjourned due to lack of quorum.

The governance committee made changes to the Articles of Association and the company secretary requested to file the amended Articles with the Registrar of Companies. The financial performance of the club in the last three years has been in decline. The club posted a deficit in the last financial reporting period. A number of members have resigned from the club citing poor service delivery. The club has been sued by a number of suppliers due to non-payment for supplies delivered to the club.

The foregoing challenges have caused infighting within the board and the Annual General Meeting for the year 2016 was not held as scheduled and as per legislation hence the company has defaulted in filing the annual returns.

The Registrar of Companies caused the club to convene a general meeting. During the general meeting, members voted out the previous chairman for failing to provide leadership to the club. They resolved to appoint a business consultant to investigate the club's affairs. The consultant's report to the club highlighted the following key observations:

- The club lacked a strategic plan.
- The club obtained a credit facility through the chairman and the general manager acting as guarantors without board approval.
- The board members did not have appointment letters, pre-requisite skills and experience.
- Three senior staff members were recruited without the participation of the recruitment committee and they are related to the chairman.
- Formulation of procurement policy and selection of vendors for major contracts that exceeded the Chief Executive Officer's limit was done by the General Manager.
- The board held only two meetings in the last financial period.
- Three directors had borrowed money from the club and this fact had not been disclosed in any report.

The consultant also made a number of recommendations under the following topics:

- Composition of the board.
- Members education.
- Risk management.
- Transparency and disclosure.
- Board charter.
- Board work plan.

The board and management have resolved that the consultant's report be implemented fully.

**Required:**

- (a) Advise the board of Happy Valley Club (HVC) on four best practices on an effective board composition. (8 marks)
  - (b) As part of sensitisation to members of HVC, examine six responsibilities of shareholders of a company. (6 marks)
  - (c) Explain three actions that were undertaken in HVC that were reserved for the board and not management. (6 marks)
  - (d) Explain three areas in which the board of HVC has failed in its responsibility to the members. (6 marks)
  - (e) Analyse how implementation of the recommendations made by the consultant under the following topics could help in improving the corporate governance of HVC:
    - (i) Board charter. (4 marks)
    - (ii) Board work plan. (4 marks)
  - (f) Citing six reasons, justify to the board of HVC the need for a code of corporate practices and conduct. (6 marks).
- (Total: 40 marks)**

**QUESTION TWO**

- (a) In the context of good governance, explain the meaning of the phrase “market based corporate governance system”. (2 marks)
  - (b) Suggest five characteristics of an effective measurement tool for enterprise risk management. (5 marks)
  - (c) Citing four reasons, justify why the roles of the chief executive officer and that of the chairman should be split. (8 marks)
- (Total: 15 marks)**

**QUESTION THREE**

- (a) Summarise four merits that could accrue to an employee from adhering to professional standards and personal integrity. (4 marks)
  - (b) Suggest six factors that an individual should consider before accepting a gift from a client. (6 marks)
  - (c) Good corporate governance requires all companies to have a code of ethics.  
Propose five ways on how a company could demonstrate commitment to the code of ethics. (5 marks)
- (Total: 15 marks)**

**QUESTION FOUR**

- (a) Outline three ways on how the resource dependency theory could promote good corporate governance. (3 marks)
  - (b) Analyse four objectives of social audit. (4 marks)
  - (c) Discuss four principles of stakeholder management suggested by Max Clarkson (1922-1998). (8 marks)
- (Total: 15 marks)**

**QUESTION FIVE**

- (a) Analyse five possible risks an individual could face as a whistleblower. (5 marks)
  - (b) In an international governance seminar, one of the facilitators noted that “Most of the developing countries are currently facing governance and ethical challenges in public service”.  
  
With reference to the above statement, discuss five factors underlying governance and ethical challenges in public service. (10 marks)
- (Total: 15 marks)**
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