



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)**

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