



CS PART III SECTION 5
GOVERNANCE AND ETHICS

THURSDAY: 2 September 2021.

Time Allowed: 3 hours.

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

QUESTION ONE

MJENGO CONSTRUCTION COMPANY LTD. (MCCL)

Mjengo Construction Company is one of the leading construction company in real estate in Kenya. The company was incorporated as a private limited company in the year 2019 after its leading directors agreed to an expansion of the company with the hope of setting up operations in the rest of the East African region.

MCCL recently appointed a finance director Goodwin Hasibu. MCCL won a government tender to construct 3,000 housing units. This government contract saw the share price of MCCL rise in value significantly. The finance director Goodwin Hasibu bought the MCCL shares using a proxy in small batches.

The finance director sold all his shares on the day the housing contract was made public and made some supernormal profits in a short period of time. Once MCCL noticed the engagement of its finance director, Goodwin Hasibu was taken to court and he was found guilty of insider trading. The court found out that Goodwin Hasibu had used his inside knowledge at MCCL to personally profit thereby abusing his position in the MCCL as a finance director.

Goodwin Hasibu was committed to a jail term for his actions. The judge in his ruling stated that Goodwin Hasibu had shown a clear breach of the trust placed on him by MCCL. The judge went on to state that insider trading had the potential of eroding public confidence in the integrity of the market.

The public relations manager stated that the internal controls in MCCL were adequate and that is why they were able to provide all the necessary information to the authorities that culminated in successful conviction of the finance director Goodwin Hasibu and that, the insider trading did not raise any major governance concerns.

During an extra ordinary meeting that was convened to discuss the incident, a resolution was passed that external governance auditors be engaged to conduct a governance audit of MCCL. They further resolved that the board of directors set up among other committees, an ethics committee and an audit committee.

Required:

- (a) In relation to the operations of Mjengo Construction Company Ltd. (MCCL), analyse three features of insider trading. (6 marks)
- (b) Citing five reasons, justify why MCCL should set up an audit committee. (10 marks)
- (c) Explain four strategies that MCCL would put in place to minimise insider trading. (4 marks)
- (d) Discuss six ways in which MCCL would benefit by establishing an ethics committee. (6 marks)
- (e) Analyse four benefits of having a diversified board of directors at MCCL. (4 marks)
- (f) Explain five ways through which MCCL would have removed Goodwin Hasibu as a director of the company. (10 marks)

(Total: 40 marks)

QUESTION TWO

- (a) Examine five possible reasons which would lead to failure of virtual organisations. (5 marks)
 - (b) Analyse three disadvantages of institutional investment. (6 marks)
 - (c) Discuss four drawbacks of the advisory board model of governance. (4 marks)
- (Total: 15 marks)**

QUESTION THREE

- (a) Explain the role of the board in Enterprise Risk Management (ERM). (5 marks)
 - (b) Discuss five reasons why boards pursue succession planning. (5 marks)
 - (c) Evaluate five factors that could influence organisations to concentrate on corporate social responsibility. (5 marks)
- (Total: 15 marks)**

QUESTION FOUR

- (a) Discuss the role of the board in ensuring legal and regulatory compliance. (5 marks)
 - (b) Explain six agency costs that organisations might incur due to separation of ownership and management. (6 marks)
 - (c) Highlight four challenges facing private and public sector corporate governance in Africa. (4 marks)
- (Total: 15 marks)**

QUESTION FIVE

- (a) "Good governance goes beyond legal compliance".
Discuss the above statement by highlighting six benefits of good corporate governance in organisations. (6 marks)
 - (b) Discuss the duties of directors with regard to conflict of interest and disclosure in promoting corporate governance. (5 marks)
 - (c) Evaluate four factors that could influence a positive corporate image of an organisation. (4 marks)
- (Total: 15 marks)**
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