



## CS PART III SECTION 5

### GOVERNANCE AND ETHICS

THURSDAY: 24 May 2018.

Time Allowed: 3 hours.

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

#### QUESTION ONE

##### SOLAR BANK LIMITED (SBL)

Solar Bank Ltd. (SBL) was incorporated on 12 January 2015 and headquartered in the capital of a developing country. SBL's core business is to provide personal and business financial services including digital banking. It has established a branch network in major towns in the country. The organisational structure of the bank allows risk management responsibility on business development and internal operational processes to be delegated to smaller units with varying layers of supervision, monitoring and reporting procedures to be followed. Ultimately, the audit and governance committee of the board is responsible for risk management and other aspects of corporate governance compliance.

In April 2017, an employee of SBL revealed anonymously to the Chief Executive Officer (CEO) that there were intermittent cases of fraud and money laundering involving briefcase companies and staff of the bank. Two months later, the internal audit unit also reported to the management that during a routine check on operational and compliance risks, it had noted breaches of procedures in opening new business accounts with huge deposits from sources which were highly suspect in terms of ethical business practices. The funds deposited would be withdrawn by the new customers immediately in form of cash or transferred electronically to individual and business accounts in other banks. It was apparent that the risk management policy and operational procedures were not being followed. The management seemed to have informally consented to these types of "new business transactions" since nothing was done to stop them. The bank did not have a whistle blowing policy. In the absence of management response on issues raised by the internal audit unit, the matter was not reported at the quarterly audit and governance committee meeting held in June 2017.

The media reports on 15 July 2017 were a big shock to the board and management of SBL. It was reported that SBL was involved in laundering the proceeds of corruption. The matter had come to the attention of the regulatory authority through a case filed in court by a government agency which had lost colossal sums of money wired to briefcase companies as payments for goods and services provided to the agency. The regulatory authority had in turn requested the Corruption Eradication Commission (CEC) to move with speed and investigate the bank.

The management had simply kept the directors in the dark. The directors trusted the management and relied heavily on management reports presented at board meetings. The board hardly sought independent external professional advice on any matter. During the last board meeting, the risk management report as presented by the chairman of the audit and governance committee was inconclusive.

#### Required:

- (a) Discuss five dysfunctional characteristics of the board of Solar Bank Ltd. (SBL) citing appropriate remedial action in each case. (10 marks)
- (b) Examine the following types of risks likely to be faced by SBL as a result of management's excessive focus on short-term results:
  - (i) Reputational risk. (4 marks)
  - (ii) Compliance risk. (3 marks)
  - (iii) Operational risk. (3 marks)

- (c) (i) Evaluate the role of the audit and governance committee in ensuring effective internal control environment of SBL. (5 marks)
  - (ii) Advise the board of SBL on the importance of the internal control environment in the organisation. (3 marks)
  - (d) (i) Citing four reasons, justify why SBL should embrace corporate compliance practices. (8 marks)
  - (ii) Propose four measures that SBL should put in place to enhance compliance practices within the company. (4 marks)
- (Total: 40 marks)**

**QUESTION TWO**

- (a) Discuss four fundamental principles usually incorporated in professional codes of ethics. (4 marks)
  - (b) Explain three qualifying disclosures that an employee could use as a defense in a court case relating to unfair dismissal for whistle blowing. (3 marks)
  - (c) Analyse four ways in which insider trading could be conducted in an organisation. (8 marks)
- (Total: 15 marks)**

**QUESTION THREE**

- (a) Examine four ways through which a company could promote shareholders' rights. (4 marks)
  - (b) Explain five reasons why good governance is important to organisations. (5 marks)
  - (c) Argue six cases against companies engaging in corporate social responsibility (CSR) activities. (6 marks)
- (Total: 15 marks)**

**QUESTION FOUR**

- (a) Evaluate three guiding principles in regard to board remuneration. (3 marks)
- (b) Analyse five activities that companies could engage in to ensure environmental sustainability. (5 marks)
- (c) Corporate governance reporting requires the directors of a company to include a corporate governance statement in the annual report.

With reference to the above statement, summarise seven contents of the corporate governance statement. (7 marks)

**(Total: 15 marks)**

**QUESTION FIVE**

- (a) Citing four reasons, explain why many organisations do not carry out board performance evaluation exercise. (4 marks)
- (b) Discuss five assumptions of deontological theory of ethics. (5 marks)
- (c) In an international governance seminar, one of the facilitators noted that "The board should be assisted by a suitably qualified, competent and experienced corporation secretary. Therefore, the board should empower the corporation secretary to efficiently and effectively execute his or her duties and responsibilities".

With reference to the above statement, analyse six principle duties of the corporation secretary. (6 marks)

**(Total: 15 marks)**

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