



**CS PART III, SECTION 5**  
**GOVERNANCE AND ETHICS**

**THURSDAY: 23 May 2019.**

**Time Allowed: 3 hours.**

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

**QUESTION ONE**

**KENLY BUS TRANSPORTERS (KBT)**

Kenly Bus Transporters (KBT) is a leading transport company in Kenya and operates four subsidiary companies. KBT was incorporated as a private limited company in 2011 and went public in 2017 through a conversion. KBT has consistently performed well as reflected in its reported net revenue of Ksh.353 million in 2018.

As a leading passenger transport company in Kenya, KBT currently has a fleet of more than 1,000 vehicles, serving more than 1 million passengers per month, on more than 35 different routes throughout Nairobi metropolitan city. KBT core business lines include regular bus services, taxi services, car rental services and charter bus services. The company plans to expand both its taxi and non-taxi businesses through geographical expansion and new business activities while continuing to invest in improving efficiency across all business segments.

Following its initial public offer (IPO), KBT approached Lilly Registrars, a leading certificate secretarial and corporate governance consultancy firm to support the company's efforts to strengthen its corporate governance (CG) framework and policies. KBT targeted to go beyond compliance with local regulations and align the company's governance with international leading practices and standards.

The decision to engage Lilly Registrars was a strategic move which was in line with KBT's overall growth strategy. KBT groups dramatic transformation from a modest family owned business into a professionally managed listed company and became one of the country's leading transport service providers that required a significant reconfiguration in the company's governance structure and practices.

The company wanted to set an example at the top that highlights the importance of corporate governance. However, since many of the members of the Board of Directors (BOD) were relatives, the leadership knew they needed to develop formal board charters and terms of reference (TORs) for Board Committees to clearly articulate the roles of the BOD and clarify the responsibilities of each governance body within the organisation.

In terms of internal controls, KBT's internal audit function needed improvement and dedicated resources to monitor systemic corporate risks. Regarding the treatment of shareholders, the company did not have policies to address conflicts of interest, insider trading or related party transactions, which was problematic since family members were represented in the BOD of both KBT and affiliated companies. The founders of KBT understood that better governance would bring added value and that value creation would come from better management of risks. By spearheading a review of its CG, KBT showed its proactive stance and foresight.

In April 2015, Lilly Registrars conducted a governance and secretarial audit of KBT's CG practices and developed a practical, action-oriented plan to help the company improve its governance structures and practices. In collaboration with Lilly Registrars, KBT developed a comprehensive CG manual to clearly outline how the company should be governed. To enhance the effectiveness of its board and clearly delineate their roles and responsibilities from management, TORs were created for BOD members as well as board-level committees and the corporate secretary. The composition of the BOD was reviewed to ensure that boards would be led by capable, independent members equipped with expertise necessary to steer the company moving forward. The company also committed itself to establish a "whistle blowing" policy in the organisation to ensure accountability and transparency on the part of the board and executive management.

To improve the capacity of monitoring risks, the company strengthened its Internal Audit Unit and established a more formal risk management framework. With expectations of transforming from a privately held family business to a rapidly growing public company, restructuring was needed. The founders explored the development of a best practice family governance framework, including a family constitution in order to set the vision, values and policies regulating the family relationships with the business and ensure continuity of KBT for generations to come.

The governance audit carried out by Lilly Registrars identified challenges in the following key governance areas facing the company:

- Commitment to corporate governance.
- Board effectiveness.
- Management control.
- Disclosure and transparency.
- Shareholder and stakeholders relations.
- Risk management.

In their report to the KBT board, Lilly Registrars have made recommendations on how to address the above challenges.

**Required:**

- (a) Discuss five ways in which Kenly Bus Transporters (KBT) could improve board effectiveness. (10 marks)
- (b) One of the challenges facing KBT is risk management. Analyse five responsibilities of the KBT's board in risk management. (10 marks)
- (c) Advise the board of KBT on eight obligations of shareholders of KBT as a listed company. (8 marks)
- (d) Regulators of capital markets provide for the minimum threshold in the regulation of listed companies, otherwise self regulation is encouraged.
- With reference to the above statement, outline six benefits of self-regulation to the board of KBT and the transport industry. (6 marks)
- (e) Propose six strategies that the board of KBT could employ to minimise insider trading. (6 marks)
- (Total: 40 marks)**

**QUESTION TWO**

- (a) Explain the following corporate governance models:
- (i) Consensus board model. (2 marks)
- (ii) Competency board model. (2 marks)
- (b) Summarise three disadvantages of an advisory board. (3 marks)
- (c) Examine four benefits that could accrue to a company that engages in corporate social responsibility (CSR). (8 marks)
- (Total: 15 marks)**

**QUESTION THREE**

- (a) Distinguish between "transaction cost theory" and "agency theory" of governance. (2 marks)
- (b) Impactful social investment requires the conduct of a social audit.
- Analyse five challenges an organisation could face when conducting a social audit. (5 marks)
- (c) Corporate disclosure and transparency, whether imposed on the firm by regulators or supplied voluntarily by the firm, is beneficial to shareholders if it creates value.

**Required:**

With reference to the above statement, discuss four mechanisms for enhancing corporate disclosures and transparency in a firm. (8 marks)

**(Total: 15 marks)**

**QUESTION FOUR**

- (a) Explain three benefits of having a whistle blowing policy. (3 marks)
  - (b) Analyse four objectives of stakeholder mapping in corporate governance. (4 marks)
  - (c) Examine four functions of the Ethics and Anti-Corruption Commission (EACC) or similar body in your country. (4 marks)
  - (d) Evaluate four objectives of a legal and compliance audit. (4 marks)
- (Total: 15 marks)**

**QUESTION FIVE**

- (a) Recent times have witnessed spectacular corporate failures despite financial auditors issuing unqualified audit reports.  
  
With reference to the above statement, suggest five measures that a governance auditor could recommend for adoption to improve corporate audits. (5 marks)
  - (b) Discuss five governance and ethical issues surrounding the pervasive adoption of information communication technology (ICT) in organisations. (10 marks)
- (Total: 15 marks)**
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