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CS PART III SECTION 6

GOVERNANCE AND SECRETARIAL AUDIT

FRIDAY: 3 September 2021.

Time Allowed: 3 hours.

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

QUESTION ONE

TALENT TRAINERS LIMITED (TTL)

Talent Trainers Limited (TTL) is a medium sized private college specialising in business, community development and social work training. TTL operates a number of programs and initiatives including providing tuition for a number of professional examination bodies, job training, placement and consultancy. Its Executive Director, Rose Tilwa, a founder member who also chairs the Board, has held this position for more than ten years. She recently announced that she will retire at the end of this month.

TTL Board has 18 members, 14 of them being drawn from Rose Tilwa's family and related to her either by birth or through marriage. The Board has several committees including a Finance Committee whose terms of reference include audit work. The Board also has a Governance Committee. TTL's Articles of Association have not been revised for over 7 years despite changes in regulations governing training institutions. These regulations require representation of host communities and education professionals in the Board, and the limiting of tenure to a maximum of two terms of 3 years each.

A Board member on appointment is issued with a copy of the Articles of Association and a Board Charter but no structured induction is provided. The Articles of Association permit special meetings to be held by the Board on 7 days' notice and 14 days' notice for ordinary Board meetings. The Articles of Association also allow communication by regular mail or e-mail.

The Articles do not address any means of making decisions other than at in-person meetings. The Articles of Association also state that a majority of the Board members constitute a quorum, and that majority of quorum is needed to take action.

Half of the Board members have held office for more than 6 years, but have never been re-elected since they were initially appointed to the Board. It has been difficult to find nominees willing to serve on the Board of TTL, so the Executive Director has been requesting relatives to nominate persons for appointment to the Board leading to a situation where Board appointments are based on friendships and family connections. This has led to lack of diverse and requisite skills within the Board.

The Board led by the Executive Committee has conducted a search to replace the Executive Director who also chairs the Board. Recruitment efforts have not yielded any favourable results and Rose Tilwa has nominated her eldest son who recently graduated with an undergraduate degree in biochemistry as the Executive Director and Chairman to the Board.

The Finance Committee meets once in a year to review the financial statements that the accountant prepares. The Committee also reviews the annual budget. When Rose Tilwa proceeded on terminal leave, the new Executive Director discovered with the guidance of a friend who is a Certified Secretary, that annual returns to the Registrar of Companies had never been filed. The same applied to tax returns and other statutory returns. As a result, the tax authorities served TTL with a notice for payment of all the accrued taxes together with interest and penalties. The situation had not been disclosed to the Board before. The Finance Committee and the Board as a whole were shocked to learn about the non-filing of returns and the non payment of taxes.

Concerned that there could be more instances of bad governance, the Executive Director has procured the services of a secretarial firm to carry out a governance audit of TTL.

**Required:**

- (a) Identify five bad governance practices at Talent Trainers Limited (TTL). (5 marks)
- (b) Independent directors play a critical role in good governance.

With reference to the above statement, explain the role of TTL's independent directors in enhancing good corporate governance. (10 marks)

- (c) Highlight to the directors of TTL the importance of succession planning in the organisation. (5 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) Explain the concept of compliance audit. (2 marks)
  - (b) With reference to audit evidence, evaluate four roles played by management representation letters during the conduct of governance audits. (8 marks)
  - (c) Discuss three attributes of audit committee members which should be considered while nominating Board members to the committee. (6 marks)
  - (d) Distinguish between a "statutory governance audit" and a "voluntary governance audit". (4 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) Auditing standards are a set of principles that governance auditors follow while conducting governance audits. With reference to the above statement, explain:
    - (i) Three general standards of conducting governance audits. (6 marks)
    - (ii) Three standards of fieldwork. (6 marks)
  - (b) With respect to risk management, assess four objectives of instituting governance control systems. (8 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

- (a) Explain five circumstances under which a governance auditor might apply professional judgement while making decisions. (5 marks)
  - (b) Analyse seven broad parameters that would guide a governance auditor while reviewing the performance of Non Executive Directors. (7 marks)
  - (c) Discuss four benefits of governance and secretarial audits to a company. (8 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

- (a) Assess four methods of obtaining governance audit evidence. (8 marks)
  - (b) Analyse four responsibilities of the reviewee under a peer review mechanism in governance auditing. (4 marks)
  - (c) Discuss the responsibilities of management and governance auditor respectively in the following post governance audit subsequent event scenarios:
    - (i) Governance audit report is signed but not issued. (4 marks)
    - (ii) Governance audit report is issued and adopted by members. (4 marks)
- (Total: 20 marks)**
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