



## CS PART III SECTION 6

### GOVERNANCE AND SECRETARIAL AUDIT

FRIDAY: 25 May 2018.

Time Allowed: 3 hours.

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

#### QUESTION ONE

##### UFANISI TECHNOLOGY LIMITED (UTL)

Ufanisi Technology Limited (UTL) is a listed company that designs and installs high technology computers used by multinational manufacturing companies.

UTL is located in one of the pacific countries with almost 90% of its sales being exported. UTL has branch offices in Europe, Asia, Africa, North America and South America and employs about 1,000 staff around the world. UTL has international patents covering its technology and invests heavily in research and development (R & D).

UTL has a majority shareholding held by Jack Rongoma, an entrepreneur who has a high risk appetite level. The UTL Board of directors constitutes four members who are effectively controlled by Jack Rongoma who is both the Chairman and Chief Executive Officer. The three other directors comprised his wife and two non-executive directors. One of whom occasionally provides consultation services to UTL while the other is long time family friend.

The Board meetings are held quarterly in an informal way through verbal review of sales activities. No minutes of the meetings are maintained. Jack Rongoma is a dominating individual who exercises a high degree of personal control, often bypassing his area managers.

Jack Rongoma is not concerned with short-term profits but with long-term returns. He emphasises on two objectives, sales growth to generate increased market share and cash flow and investment in R & D to ensure the long-term survival of UTL by maintaining patent protection and technological lead over its competitors. He is in daily contact with all his offices worldwide through telephone, travels extensively around the world and has an excellent knowledge of UTL's competitors and customers. He uses limited number of non-financial performance measures, primarily concerned with sales, market share, quality and customer satisfaction.

Jack Rongoma encourages a culture committed to growth, continual innovation and high levels of customer satisfaction which is reinforced by high salary levels. Staff who are not committed to his objectives are easily dismissed.

UTL has experienced rapid growth with increased profit for the last 10 years although cash flow is often low. A high sales margin is achieved because UTL is able to charge its customers premium prices. The computers sold by UTL guarantee high speed and better quality products than its competitors.

Jack Rongoma has little time for traditional accounting. Product costing is not seen as valuable because the cost of sales is relatively low and most costs incurred by UTL are incurred well in advance of sales being made.

Research and development costs are not capitalised in UTL's statement of financial position. Although budgets are used for expense control and monthly management accounts are produced, they have little relevance to Jack Rongoma who recognises the fluctuations in profit caused by the timing of sales of low volume.

Jack Rongoma places little value in comparing monthly profit figures against budgets because sales are erratic. However, he depends heavily on a spreadsheet to manage UTL's cash flow by using sensitivity analysis against his sales and cash flow projections. Cash flow is a major business driver and is controlled tightly using the spreadsheet model.

The major risks facing UTL have been identified as follows:

- Competitor infringement of patents, which UTL always meets by instituting legal actions.
- Adverse movements in the exchange rate between the home country and UTL's export markets.
- The reduction in demand for computers due to economic recession.
- Failure of continued R & D investment to maintain technological leadership.
- Failure to control costs.

Jack Rongoma believes that most of the above risks could be addressed by his policy of outsourcing services and continuous personal contact with staff, customers and competitors.

**Required:**

- (a) Critically evaluate the internal control challenges facing Ufanisi Technology Limited (UTL). (10 marks)
- (b) Write a report to the board of UTL recommending improvements to the company's risk management strategy. (10 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- (a) Subsequent events are those events, favourable and unfavourable, that occur between the reporting year date and the date when the governance audit reports are authorised for issue.

**Required:**

- Discuss four implications of an audit of subsequent events to the final governance audit report. (4 marks)
- (b) Assess four matters that a governance auditor is required to agree with an expert in writing before using the work of an expert and determining whether that work is adequate. (4 marks)
- (c) Outline six parameters which a governance audit should focus on in an organisation. (6 marks)
- (d) You are performing a governance audit of a company that recently forfeited some shares issued.

Describe six areas to verify in the audit of securities for a company which has forfeited some shares. (6 marks)

**(Total: 20 marks)**

**QUESTION THREE**

- (a) (i) Explain the term "agreed-upon procedures" as used in governance audit engagement. (2 marks)
- (ii) Highlight three characteristics of agreed upon procedures in a governance audit engagement. (3 marks)

- (b) Developments in information and communication technology (ICT) allow organisations to hold virtual board and committee meetings.

Explain five contents of a policy on virtual meetings in relation to the governance standard on meetings. (5 marks)

- (c) Discuss five aspects that might be relied on by a governance auditor when sampling evidence to draw reasonable conclusions on which to base the audit opinion. (5 marks)

- (d) Assess five documents that might be required by a certified secretary in carrying out due diligence relating to a private company. (5 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

- (a) "If there is a need for a uniform set of international accounting standards and international auditing standards, then there is also a need for global corporate governance standards", remarks made by a Chief Executive Officer (CEO) attending a multinational conference on corporate governance.

With reference to the above statement, discuss the need for global corporate governance standards. (12 marks)

- (b) The general principle is that for recurring governance audits, the governance auditor does not have to issue a new engagement letter.

Explain four circumstances that might necessitate a governance auditor to issue a new engagement letter to an existing client. (8 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- (a) Highlight four components of a board evaluation. (4 marks)

- (b) Discuss the audit procedure a governance auditor should use to identify post governance audit events. (8 marks)

- (c) Examine four circumstances under which a governance auditor might be liable for damages suffered by a user who relied on the governance audit report in a statutory governance audit. (8 marks)

**(Total: 20 marks)**

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