



CS PART III SECTION 6

GOVERNANCE AND SECRETARIAL AUDIT

FRIDAY: 24 May 2019.

Time Allowed: 3 hours.

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

QUESTION ONE

MOTOKAA HAULERS LIMITED (MHL)

Motokaa Hauliers Limited (MHL) is a medium sized road haulage company which is likely to be seeking a securities exchange listing within the next three years. In preparation for the listing, the directors are seeking to understand certain key governance requirements of local and international governance codes. They are aware that a listing at the securities exchange will require strengthening corporate governance processes in the company. In particular, directors require knowledge and information on the following governance code requirements:

- Role of non-executive directors.
- Transparency and disclosure in financial reporting.
- Stakeholder relationships and management.
- The role of internal and external auditing functions.
- Protection of shareholders interests.
- Compliance with laws and regulations.

Currently, directors derive most of their remuneration from the company in form of salary and they have been determining salary levels amongst themselves. They have realised they need to establish a remuneration committee but they are unsure of its role and if it will function effectively. The directors have also worked together well, though informally, there is lack of a formal reporting and control system both at the board and lower levels of management.

The company does not have a corporate secretary and only pays one on a transactional basis when they need to file statutory returns. Meetings are held on an ad hoc basis when there is need and no formal minute writing is done, instead each director comes with a notebook to note key decisions made.

There is also no internal audit department or oversight role by the board on audit matters. Board processes are not documented and sometimes key decisions about the company are made through consultation by phone. The company has established a contingency fund to take care of emergencies such as accidents and litigation claims against the company.

The company has approved you as an accredited governance auditor to perform a benchmark governance audit and suggest key recommendations on how to enhance corporate governance. You have completed the audit and are ready to discuss the draft report with the directors of the company.

**Required:**

- (a) Justify to the directors of Motokaa Hauliers Ltd. (MHL) five responsibilities of the remuneration committee in improving corporate governance. (5 marks)
- (b) Advise the directors of MHL on five responsibilities of the board in relation to risk management. (5 marks)
- (c) Discuss with the directors of MHL, five roles of independent directors in enhancing good corporate governance. (5 marks)
- (d) Advise the directors of MHL on the need for a corporate secretary in enhancing good corporate governance. (5 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- (a) Summarise six differences between “secretarial audit” and “financial audit”. (6 marks)
  - (b) Distinguish between a “governance audit plan” and a “governance audit programme”. (4 marks)
  - (c) Discuss four sources of governance audit criteria. (4 marks)
  - (d) With reference to governance control and compliance, examine three types of inherent audit risk that the governance auditor could expect during auditing. (6 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) Assess three provisions included in the governance audit engagement letter in relation to the ownership rights and control of working papers. (6 marks)
  - (b) Summarise three objectives of the Institute of Certified Secretaries (ICS) in awarding Corporate Governance Awards. (3 marks)
  - (c) Discuss five initiatives that could be put into consideration in order to improve the quality of governance audit and corporate transparency. (5 marks)
  - (d) Analyse six matters that a governance auditor might be interested in when reviewing minutes of the Board of Directors. (6 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

- (a) Discuss five post governance audit events that a governance auditor might include in the governance audit report. (5 marks)
  - (b) Assess five professional responsibilities of a peer- reviewer in governance auditing. (5 marks)
  - (c) Examine five possible impacts of a qualified governance audit report. (5 marks)
  - (d) Analyse five components of a governance audit report. (5 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

- (a) Analyse four attributes of audit evidence that a governance auditor might use for audit opinion. (4 marks)
  - (b) Evaluate six indicators of fraud that a secretarial auditor needs to observe while conducting fraud investigations. (6 marks)
  - (c) Describe the procedure of undertaking a governance and secretarial audit. (10 marks)
- (Total: 20 marks)**
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