



## CS PART III SECTION 6

### GOVERNANCE AND SECRETARIAL AUDIT

THURSDAY: 28 November 2019.

Time Allowed: 3 hours.

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

#### QUESTION ONE

##### CITY IMPROVEMENT SUPPORT SERVICES LTD. (CISSL)

City Improvement Support Services Ltd. (CISSL) is a private company-limited by shares. It was incorporated 8 years ago by a group of professional service providers in the field of land economics. Each of the shareholders are either in private practice as Quantity Surveyers or employed in government in senior positions.

There are a total of 15 shareholders, all of whom hold equal number of shares. All shareholders are also registered as directors. Two of the shareholders and directors are able to offer at least two to four hours of their time on a daily basis to attend to CISSL matters. They collectively offer consultancy services to government and government agencies, private companies and individuals, as well as international bodies.

Day to day management is through an administrator who also maintains basic accounting records although he has no formal training in accounting. The company's external auditors send one of their staff once every month to help in the review of accounting records.

A team of five shareholders has been appointed to help oversee the day to day management of the company. They make decisions relating to operations and other urgent matters which would otherwise have needed a board's collective decision. They have scheduled to meet twice every month. They neither have an agreed agenda nor quorum for their meetings. Most of the time, any two available can meet and make such decisions. They give updates to the rest of the members every month by emails, and at the annual general meeting which they have faithfully held every year.

#### Required:

- As a governance practitioner, suggest five measures that City Improvement Support Services Ltd. (CISSL) could employ to strengthen its governance practice. (5 marks)
- Propose five potential risks in relation to the financial management practice adopted by CISSL. (5 marks)
- In the last annual general meeting, the shareholders of CISSL resolved that the company should undergo a governance audit.

Discuss five challenges the governance auditor is likely to encounter in carrying out his role at CISSL. (10 marks)

**(Total: 20 marks)**

#### QUESTION TWO

- The Capital Markets Authority (CMA) has issued the Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015, for application by both listed and unlisted public companies. The code provides for "equitable terms of shareholders" which includes the treatment of shareholders equally according to the rights conferred on them.

With reference to the above statement, summarise five rights of shareholders specified in the code, that the governance auditor should assess compliance with. (5 marks)

- (b) Explain two types of governance audits. (2 marks)
- (c) Discuss four professional principles that bind a governance auditor and his engagement team while conducting a governance audit. (8 marks)
- (d) Analyse five responsibilities of a client in helping a governance auditor conduct an efficient governance audit. (5 marks)
- (Total: 20 marks)**

### QUESTION THREE

- (a) James Temoh is in the process of responding to a governance audit "Request for proposal" and is not clear as to why a potential client would call for a proposal from a governance auditor.

Examine four possible reasons why a potential client would find it necessary to call for a request for proposal from a governance auditor. (4 marks)

- (b) Justify why a governance auditor, would be unable to sign off an audit opinion before receiving the letter of representation from the client. (4 marks)
- (c) Governance auditors do not generally find pleasure in issuing a qualified opinion. Suggest three circumstances under which the governance auditor might be forced to issue a qualified opinion. (6 marks)

- (d) Governance audit evidence will help the governance auditor to make his judgment in arriving at his findings.

Discuss the expectations of obtaining and reviewing governance audit evidence through:

- (i) Examination of physical evidence to the satisfaction of the governance auditor. (3 marks)
- (ii) Discussions and inquiries with the client. (3 marks)

**(Total: 20 marks)**

### QUESTION FOUR

- (a) Explain the following governance audit approaches:

- (i) System-oriented approach. (2 marks)
- (ii) Problem-oriented approach. (2 marks)
- (iii) Result-oriented approach. (2 marks)

- (b) You have been appointed as the governance auditor of a blue chip listed company. Analyse four internal governance controls that you would expect to determine whether the company has an effective governance system. (8 marks)

- (c) (i) Explain the meaning of "governance audit risk". (2 marks)
- (ii) Explain four reasons why liability of a governance auditor would accrue while preparing a governance audit report for a statutory audit. (4 marks)

**(Total: 20 marks)**

### QUESTION FIVE

- (a) You have just concluded the governance audit review of a listed company and issued a report, although it has not been published.

#### Required:

Explain how you would handle the following events that have come to your attention:

- (i) A major shareholder has disposed of his shares and the matter has been widely reported in the media. (4 marks)
- (ii) The company's Chief Executive Officer (CEO) has resigned from the company in unclear circumstances. (4 marks)

- (b) The Institute of Certified Secretaries (ICS) has issued a governance audit peer review mechanism (CG004). The guideline provides for the audit of a governance auditor by another governance auditor.

With reference to the above statement, analyse three major outcomes expected from a peer review process.

(6 marks)

- (c) In both the Governance Audit Tool and ICS Governance Award, the concept of sustainability has been given emphasis as an important parameter.

In relation to the above statement, discuss how sustainability is supported by the following practices in the organisation:

(i) Board performance evaluation. (2 marks)

(ii) Preparation of a human resource and talent management policy. (2 marks)

(iii) Business continuity planning. (2 marks)

**(Total: 20 marks)**

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