



CS ADVANCED LEVEL

GOVERNANCE AND COMPLIANCE AUDIT

TUESDAY: 3 December 2024. Morning Paper.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Do NOT write anything on this paper.

QUESTION ONE

JAMAA SACCO

Jamaa SACCO is a mid-sized Savings and Credit Cooperative Society in Nairobi, Kenya. It serves over 20,000 members by providing loans, savings accounts and investment services. Recently, the SACCO faced scrutiny from the SACCO Societies Regulatory Authority (SASRA) over concerns about its governance and compliance practices. The authority recommended an attestation engagement on the legal requirements on governance and compliance of Savings and Credit Cooperatives. In response, the CEO, Rob Jabari, commissioned a governance and compliance audit team to evaluate its adherence to Kenyan regulations, internal policies and industry best practices, aiming to identify governance weaknesses and compliance gaps. Bidii Auditors was awarded the contract to conduct the governance and compliance audit and give recommendations to the board in two months' time. The purpose of the audit was properly articulated during the inception meeting.

After agreeing on the terms of reference, the scope of the audit was determined as; assessing the SACCO's board effectiveness, compliance with SASRA regulations, internal controls, risk management and communication processes. Bidii Auditors team comprised of a lead auditor, compliance specialist, financial auditor and an IT expert. Gill Salimu, the lead auditor informed the team that the audit would focus on evaluating governance structures, compliance with laws and overall operational integrity.

Bidii Auditors kicked off the audit after meticulously planning on how to execute. In this phase, the team had agreed on the timelines, materiality of evidence and methods of collecting evidence. Audit working papers were also prepared at this stage. The audit plan, programmes and procedures were agreed upon. Jack Bahati, the compliance specialist, prepared the audit checklist and a quality control matrix to guide the audit. The audit team heavily relied on structured interviews to triangulate the evidence collected using the questionnaires. A thorough review of internal policies, financial statements, compliance reports and regulatory submissions was conducted, alongside real-time observations of board meetings and daily operations. Testing of key controls such as loan approval processes and data access controls was also performed to validate the SACCO's adherence to regulations. Gill Salimu had emphasised on the importance of audit sampling in achieving the objectives within the stipulated timelines. Data was analysed and a report was generated.

The audit report revealed several governance and compliance risks. Governance risks included inadequate board oversight on strategic and risk management decisions, conflicts of interest where some board members had personal stakes in contracts and a lack of skill diversity on the board, especially in risk management and IT. These governance issues highlighted significant gaps in the board's ability to make informed decisions and uphold ethical standards. Compliance risks included non-compliance with SASRA regulations such as failing to meet minimum liquidity ratios and delayed submissions of financial statements. The SACCO's anti-money laundering (AML) controls were outdated, posing risks of financial misconduct, while inconsistencies were found between documented policies and their implementation, particularly in loan approvals and member eligibility criteria.

Documentation and communication gaps further compounded these issues. Key governance documents, such as board meeting minutes and policy updates, were poorly maintained, with missing or incomplete records. The SACCO's policy manuals lacked detailed compliance guidelines, leading to inconsistent practices across departments. Communication within the SACCO was also problematic, with poor internal communication between the board, management and staff, resulting in misunderstandings and delays. Reporting to stakeholders was insufficiently transparent, often lacking detailed insights into financial health and compliance.

While presenting the findings, Gill Salimu recommended the strengthening of board oversight through training on governance best practices and increasing board diversity to include members with risk management and IT expertise. Enhancing the compliance framework was also advised, including updating AML procedures, ensuring timely reporting to SASRA and appointing a dedicated compliance officer. The SACCO was urged to improve its documentation by creating a centralised repository for governance and compliance records and to establish clear communication protocols to improve decision-making.

Rob Jabari is optimistic that by addressing these gaps, Jamaa SACCO will be on the right trajectory to become the best SACCO in the region.

Required:

- (a) Explain **FIVE** elements of the attestation engagement that was recommended to Jamaa SACCO by SASRA. (10 marks)
 - (b) Examine **FIVE** governance and compliance risks that were discovered at Jamaa SACCO. (10 marks)
 - (c) Evaluate **FIVE** benefits that might accrue to Jamaa SACCO from maintaining effective documentation and communication records. (10 marks)
 - (d) The audit team heavily relied on a certain tool to triangulate the evidence collected using the questionnaire. Assess **FIVE** limitations associated with the use of this tool. (10 marks)
- (Total: 40 marks)**

QUESTION TWO

- (a) Identify **FIVE** challenges associated with conducting governance and compliance audits in the digital era. (5 marks)
 - (b) A Governance Auditors' professional liability arises from the trust placed in them to provide independent and objective assessments of an organisation's compliance with legal and regulatory frameworks. With reference to the above statement, examine **FIVE** aspects of this liability. (10 marks)
- (Total: 15 marks)**

QUESTION THREE

- (a) Kim Consultants is developing an audit engagement proposal for Faida Limited. Analyse **FIVE** elements of this proposal. (5 marks)
 - (b) Identify **FIVE** elements of quality control with respect to a Governance Audit engagement. (5 marks)
 - (c) Data analytics has become an integral part of the Governance Audit process. With reference to the above statement, appraise **FIVE** ways in which it may be applied during an audit. (5 marks)
- (Total: 15 marks)**

QUESTION FOUR

- (a) In the context of peer review in a Governance Audit:
 - (i) Identify **THREE** reasons why a peer reviewer may be disqualified. (3 marks)
 - (ii) Explain **TWO** objectives of peer review. (4 marks)
 - (b) Examine **FOUR** benefits of applying the concept of materiality in the planning phase of a governance review. (8 marks)
- (Total: 15 marks)**

QUESTION FIVE

- (a) Subsequent events in the governance audit process can have a material impact on the financial statements and require appropriate disclosure.

Explain **FIVE** ways in which these events may arise. (5 marks)

- (b) Explain **FIVE** confidentiality requirements that should be met during a peer review in relation to Governance Audit. (5 marks)

- (c) Summarise **FIVE** aspects that are considered during governance awards under the board composition and structure parameters. (5 marks)

(Total: 15 marks)

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CS ADVANCED LEVEL

GOVERNANCE AND COMPLIANCE AUDIT

TUESDAY: 20 August 2024. Morning Paper.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Do NOT write anything on this paper.

QUESTION ONE

E-JAMHURI LTD (EJL)

E-Jamhuri Ltd. (EJL), a pioneering Kenyan fintech company, was at the forefront of driving digital financial inclusion through its mobile money transfer and payment services. As the company expanded its operations, it faced new challenges in the form of regulatory complexities, data privacy concerns and the ever-present threat of financial crime. Recognising the need for a robust governance and compliance framework, EJL sought the expertise of Haki Auditors, a reputable audit firm.

The audit engagement commenced with a comprehensive risk assessment which unveiled potential gaps in regulatory adherence. The audit team meticulously scrutinised the company's data security practices under the watchful eye of the Office of the Data Protection Commissioner, ensuring compliance. Furthermore, the effectiveness of Anti-Money Laundering (AML) and Know Your Customer (KYC) procedures were rigorously tested, leaving no room for vulnerabilities. The board's composition and independence were examined to ensure ethical decision-making at the highest level. The company's information technology infrastructure was subjected to a thorough evaluation, identifying any potential cybersecurity risks.

Throughout the audit process, meticulous documentation became top priority. Strengths were duly noted, weaknesses highlighted and potential non-compliance issues flagged. Open communication with EJL's management fostered transparency and collaboration. The final report, a culmination of extensive analysis, provided a clear picture: EJL had the potential to achieve remarkable success, but needed to strengthen its governance and compliance framework.

The recommendations were clear and actionable. EJL's AML and KYC procedures required enhancement to seal legal gaps and comply with regulations in combating financial crime effectively. Data security policies and controls needed reinforcement to create an impenetrable shield against malicious actors. The board's composition needed to be adjusted, introducing a greater degree of independence to ensure robust oversight. A comprehensive risk management framework was established as the cornerstone, proactively identifying and mitigating potential threats. Additionally, regular internal audits and compliance reviews were prescribed to ensure continuous improvement and serve as a constant health check for the organisation.

Embracing the audit's findings, EJL embarked on a transformative journey. KYC and AML procedures were revamped, data security became a company-wide priority and the board welcomed diverse perspectives to enhance its independence. A risk management framework became the company's guiding compass, navigating uncharted territories. Regular audits ensured continuous adherence to regulations and best practices.

As EJL navigates the dynamic Kenyan fintech landscape, it does so with newfound confidence. Its strengthened governance and compliance framework fosters investor trust, mitigates regulatory risks and safeguards customer data. With a clear vision and commitment to excellence, EJL is well-positioned not only to survive but to thrive in the ever-evolving digital financial ecosystem.

Required:

- (a) Explain **FIVE** compliance risks that might have been unearthed during the audit of E-Jamhuri Ltd. (10 marks)
- (b) Throughout the audit process, a certain practice became a top priority.

Describe **FIVE** roles of this practice.

(10 marks)

- (c) Outline **FIVE** benefits that accrued to E-Jamhuri Ltd. from the implementation of the audit recommendations. (10 marks)
 - (d) Haki Auditors gathered evidence across various areas at E-Jamhuri Ltd. Analyse **FIVE** tools that the team might have used to achieve this. (10 marks)
- (Total: 40 marks)**

QUESTION TWO

- (a) Explain **FIVE** types of audit assurance engagements. (5 marks)
- (b) Hekima Governance Auditors has appointed Jack Wemba as their audit peer reviewer. Outline **FIVE** benefits that could accrue to Hekima from this move. (5 marks)
- (c) The application of professional skepticism is a critical aspect of auditing that should be exercised throughout the entire audit process.

In view of the above statement, identify **FIVE** ways in which professional skepticism might be applied in a governance audit. (5 marks)

(Total: 15 marks)

QUESTION THREE

- (a) In deciding whether to continue a client relationship, an audit firm needs to consider significant matters that might have arisen during the year and their implication on the audit.

In view of the above statement, explain **FIVE** of these matters. (10 marks)

- (b) The Institute of Certified Public Secretaries of Kenya (ICPS - K) in 2010 inaugurated an award for excellence in governance, titled the “ICPSK Champions of Governance (COG) Award”.

Analyse **FIVE** parameters evaluated for this award. (5 marks)

(Total: 15 marks)

QUESTION FOUR

- (a) Evaluate **FOUR** types of governance and compliance audit reports. (4 marks)
 - (b) Examine **SIX** challenges associated with governance and compliance audit. (6 marks)
 - (c) Explain **FIVE** procedures that audit teams might use to identify subsequent events. (5 marks)
- (Total: 15 marks)**

QUESTION FIVE

- (a) A Corrective Action Plan (CAP) is typically formulated shortly after an audit.
Explain **FIVE** constituents of this plan. (5 marks)
 - (b) Examine **FIVE** characteristics of a good audit working paper in a compliance audit. (10 marks)
- (Total: 15 marks)**
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CS ADVANCED LEVEL

GOVERNANCE AND COMPLIANCE AUDIT

TUESDAY: 23 April 2024. Morning Paper.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Do NOT write anything on this paper.

QUESTION ONE

MALI SAFI LIMITED (MSL)

Mali Safi Limited (MSL) is a non-listed company operating in Kenya, a country embracing principles-based corporate governance code. Listed companies are required to follow the code or explain in their annual report why they are not following it, while other companies can follow the code if they so wish. Many shareholders of MSL are members of the same family and a listing application was not one of their goals. However, MSL is larger than many listed companies and the Board has been attempting good corporate governance practices. The Board consists of six executive and six non-executive directors (NEDs), with the roles of Chief Executive Officer (CEO) and chairman being performed by two different individuals. NEDs are appointed for a maximum of six years.

MSL has audit, nomination and remuneration committees consisting entirely of non-executive directors. A senior independent director (SID) has been appointed and has been identified as maintaining close contact with the chairman to gain a better understanding of the business. In the year 2018, the company introduced an innovation in the form of a quarterly squash match for all directors to improve the way they relate to each other.

Control systems at MSL are implemented by departmental heads as needed. The nominating committee prepares job descriptions for each director. The committee also makes proposals for new appointees when existing directors leave or are about to leave MSL's Board. All directors of MSL are obligated to acquire shares in the company. However, the timeframe for buying and selling shares is restricted to a few months after the start of the year and Board approval is necessary for significant purchases. The CEO holds direct responsibility for implementing Board policies at an operational level and their performance evaluation is partially tied to this aspect. The remuneration package for executive directors consists of a combination of a basic salary, an annual bonus and performance-related pay (PRP), in addition to regular pension contributions and a company car. The determination of the basic salary continues to be based on the average salaries paid in the country where MSL operates. The bonus payments are partly influenced by guaranteed elements, taking into consideration the risky nature of MSL's business and the net profit generated.

The remuneration structure at MSL incorporates a performance component that is directly tied to the fluctuations in the company's share price. To acknowledge the inherent risks associated with MSL's business, 35% of the total remuneration is allocated to performance-related pay (PRP). Additionally, directors are granted share options, which typically become exercisable after a period of five years. However, recent pay increases granted to the directors have sparked controversy, as some managers argue that they were unreasonably high. To address these concerns, the Audit committee has been tasked with furnishing the board with additional information on this matter, in preparation for a meeting with senior and middle level management.

Required:

- (a) Evaluate **FIVE** principles of corporate governance that MSL should embrace to enhance competitiveness. (10 marks)
- (b) Explain **FIVE** functions of MSL's audit committee. (10 marks)
- (c) Evaluate **FIVE** potential sources of information that could be relevant to MSL's governance auditors. (10 marks)
- (d) Discuss **FIVE** possible governance risks that are likely to be found at MSL. (10 marks)

(Total: 40 marks)

QUESTION TWO

- (a) Evaluate **FIVE** strategies for effective governance audit implementation. (5 marks)
- (b) As the Chief Compliance Officer (CCO) of a multinational company, explain **FIVE** timing considerations for governance and compliance audits that you would implement within your organisation. (5 marks)
- (c) The scope of subsequent events is crucial in compliance audits to ensure the audit reflects the organisation's compliance status as accurate as possible.

In relation to the above statement, highlight **FIVE** such events during a compliance audit. (5 marks)
(Total: 15 marks)

QUESTION THREE

- (a) A governance audit report serves several important purposes in the context of governance and compliance audits.

Explain **FIVE** roles of an auditor's report. (5 marks)
- (b) Quality control is a critical exercise in the planning stage of a governance and compliance audit.

Analyse **FIVE** benefits of this exercise. (5 marks)
- (c) With respect to assurance, outline **FIVE** characteristics of an attestation engagement. (5 marks)
(Total: 15 marks)

QUESTION FOUR

- (a) An inception report is a crucial document created at the initial stage of engagement and appointment.

Outline **FIVE** components of this report. (5 marks)
- (b) During governance awards, evaluation and scoring are essential processes.

Describe **FIVE** benefits of adopting technology during these processes. (5 marks)
- (c) Documentation in governance and compliance audits plays a crucial role in ensuring transparency, accountability and adherence to regulatory requirements.

Examine **FIVE** areas of documentation which could be relied upon by governance auditors. (5 marks)
(Total: 15 marks)

QUESTION FIVE

- (a) In the context of governance and compliance audits, peer review mechanism involves the evaluation of an organisation's governance practices, policies, procedures and compliance efforts by peers or external experts in the field.

Explain **FIVE** areas which form the scope of peer review mechanism. (5 marks)
 - (b) Non-compliance with governance and compliance standards can have a significant impact on organisations.

Analyse **FIVE** impacts of such non-compliance to an organisation. (5 marks)
 - (c) Explain **FIVE** ethics and integrity issues that must be complied with by governance auditors while carrying out their work. (5 marks)
(Total: 15 marks)
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CS ADVANCED LEVEL

GOVERNANCE AND COMPLIANCE AUDIT

TUESDAY: 5 December 2023. Morning Paper.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Do NOT write anything on this paper.

QUESTION ONE

KENYA HORIZON BANK (KHB)

Kenya Horizon Bank (KHB) stands as a cornerstone institution contributing to shaping the nation's economic trajectory. However, the institution faces the challenge of balancing power and responsibility which necessitates robust governance and compliance measures. In the new era of increased regulatory scrutiny in the country, KHB has been compelled to reassess its governance structures and compliance frameworks.

KHB found itself at the centre of evolving legal risks. Directives introduced by the Central Bank of Kenya (CBK) brought a number of challenges that included the need for a realignment of internal policies with updated regulatory requirements, addressing potential cybersecurity vulnerabilities and ensuring strict adherence to Anti-Money Laundering (AML) and Know Your Customer (KYC) regulations. Additionally, concerns arose regarding the transparency and efficiency of KHB's board governance structures, prompting a deeper evaluation of decision-making processes.

Recognising the need for a comprehensive audit, KHB carefully navigated the process of engaging an external audit firm. After thorough evaluation, Kenya Assurance Services (KAS) emerged as the partner of choice. The decision to engage KAS was informed by proven track record, industry reputation and experience in navigating the complex web of Kenyan regulatory requirements. KHB initiated a consultative process with key stakeholders, including regulators to align expectations and concerns. This collaborative approach laid the foundation for a fruitful partnership, ensuring that the audit would not only meet regulatory standards but also address specific concerns unique to KHB.

With clear terms-of-reference in place, the engagement unfolded with careful planning. The audit plan was agreed upon by both teams so as to kick off the audit process. KAS, leveraging its expertise, collaborated closely with KHB to conduct an in-depth risk assessment. The process involved identifying potential gaps in governance structures and compliance frameworks, enabling the strategic allocation of resources across technology, human resources and internal controls. A realistic timeline was established, ensuring a comprehensive audit without unduly disrupting KHB's daily operations.

Throughout the audit, effective documentation and communication were important. An elaborate document management system was introduced to ensure that the governance audit was smooth and seamless. Regular updates from KAS to KHB's management and the board fostered transparency, allowing for a real-time understanding of the audit process. This proactive communication approach facilitated the prompt addressing of emerging concerns and adjustments to the audit strategy when necessary. The culmination of the audit saw KAS present a comprehensive audit report to KHB. The report presented the findings in clear details, providing insights into governance and compliance strengths, weaknesses and areas of improvement. Recommendations were accompanied by a detailed remedial roadmap, empowering KHB to address identified issues systematically.

In the collaborative journey between KHB and KAS, the governance and compliance audit not only identified and mitigated risks but also fortified KHB's resilience against regulatory challenges. This experience emerged as a guiding light for other financial institutions in the country, underlining the importance of proactive governance and compliance measures in ensuring the stability and sustainability of the nation's financial sector. As KHB continues to evolve and grow, it offers a testament to the enduring commitment required for navigating the complex intersection of governance, compliance and financial stewardship in the modern era. It also highlights the importance of strategic and collaborative approach to audits, ensuring that they are not just compliance exercises but opportunities for organisational growth and improvement.

Required:

- (a) An elaborate document management system was introduced at KHB to ensure that the governance audit was smooth and seamless.
Explain **FIVE** documents that may have been contained in this system to assist in the audit. (10 marks)
- (b) The completion of the audit saw KAS present a comprehensive report to KHB.
Evaluate **FIVE** components of this report. (10 marks)
- (c) KHB found itself at the centre of certain risks.
Examine **FIVE** of these risks. (10 marks)
- (d) Analyse **FIVE** benefits of the plan that both teams agreed upon so as to kick off the audit process. (10 marks)
(Total: 40 marks)

QUESTION TWO

- (a) Assurance engagements play an important role in helping stakeholders to make informed decisions.
Summarise **FIVE** elements of these engagements. (5 marks)
- (b) Examine **FIVE** roles of the Code of Ethics for Certified Secretaries. (10 marks)
(Total: 15 marks)

QUESTION THREE

- (a) Explain **FOUR** qualities of a good governance audit. (4 marks)
- (b) Evaluate **FOUR** components in the scope of a governance audit. (4 marks)
- (c) A Governance and Compliance audit is a systematic process of evaluating an organisation's governance and compliance practices.
Analyse **SEVEN** steps of this cycle. (7 marks)
(Total: 15 marks)

QUESTION FOUR

- (a) The board of directors plays a critical role in ensuring the successful implementation of the audit recommendations action plan.
Explain **FIVE** sections covered by an audit action plan. (5 marks)
- (b) Site visits are an important part of a governance audit.
Examine **FIVE** benefits of conducting a site visit. (10 marks)
(Total: 15 marks)

QUESTION FIVE

- (a) Summarise **FIVE** guidelines of assessing subsequent events during a governance audit. (5 marks)
- (b) A peer reviewer is responsible for evaluating and assessing the quality of another auditor's work or an audit firm's processes.
List **FIVE** qualifications of a peer reviewer. (5 marks)
- (c) Explain **FIVE** benefits of using the governance index during governance awards. (5 marks)
(Total: 15 marks)
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CS ADVANCED LEVEL

GOVERNANCE AND COMPLIANCE AUDIT

TUESDAY: 22 August 2023. Morning Paper.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Do NOT write anything on this paper.

QUESTION ONE

DUNKEN DOYLES COM (DDC)

Dunken Doyles Com (DDC) is a telecommunications company based in Kenya that has established itself as a leader in the industry. Founded in 1995, DDC has undergone tremendous transformation from one hundred employees to the current over two thousand. As of December 2022, the company had a total customer base of over 40 million subscribers, which included both mobile and fixed-line customers. The company has consistently recorded significant revenue growth over the years. In the financial year 2021-2022, the company reported a total revenue of approximately Sh.192 billion, representing an increase of 10 % compared to the previous year.

The company has maintained a strong financial position, demonstrating consistent profitability. In the financial year 2021-2022, the company reported a net profit of approximately Sh. 54.7 billion, marking a 58% increase compared to the previous year. The company offers a diverse range of telecommunications services to its customers. Its mobile services encompass voice calls, SMS messaging, mobile internet, and mobile data. With the largest mobile network in Kenya, the company provides extensive coverage across the country, ensuring reliable and accessible connectivity for its users. In addition to mobile services, DDC also offers fixed-line services such as broadband internet, corporate connectivity solutions, and fiber optic infrastructure.

To sustain this exponential growth, the CEO, John Kolt has emphasised the importance of compliance with good corporate governance practices as well as legal and regulatory compliance. The company had previously established some governance and compliance practices, but there were concerns regarding their effectiveness and potential gaps in the existing framework. John Kolt contracted BGM auditors to conduct a governance and compliance audit and give recommendations for improvement. This assurance engagement was intended to further boost the confidence of shareholders in the company.

The objectives of the audit were to assess the effectiveness of governance and compliance practices, identify areas of non-compliance and recommend improvements. The scope of the audit encompassed all departments, processes, and systems within DDC that were relevant to governance and compliance. To ensure a structured and systematic approach, BGM formulated a detailed audit plan. The plan outlined the activities, timelines, and allocation of resources required for the audit. It also involved engaging with key stakeholders, including department heads, legal counsels, and compliance officers, to gather insights and ensure their cooperation throughout the audit process. While briefing his team, Mark West, the lead auditor, emphasised the importance of documentation in the entire audit process.

To collect data, BMG commenced the audit by conducting interviews with key personnel across various departments. This is after meticulous audit sampling by the team. These interviews provided valuable insights into existing practices, potential challenges, and areas requiring improvement. To triangulate the findings, the audit team reviewed documentation, policies, and procedures to evaluate their alignment with relevant laws, regulations, and industry standards. Internal controls and risk management processes were assessed to determine their effectiveness in mitigating compliance risks.

The audit revealed that governance and compliance structures were strong at DDC but a few weaknesses were also identified within DDC's governance and compliance framework. The audit revealed inconsistencies in policy implementation, inadequate training programmes, and insufficient monitoring mechanisms. Non-compliance with certain regulations was also identified. A number of legal risks were also identified and based on these findings, the audit team developed a set of recommendations aimed at improving governance and compliance practices.

DDC understood the importance of addressing the identified issues promptly. A comprehensive action plan was formulated to address the weaknesses and deficiencies highlighted in the audit. The plan included specific actions, assigned responsibilities, and defined timelines for implementation. The company also allocated additional resources to support the implementation of corrective measures.

To ensure the sustainability of the improvements made, DDC implemented periodic reviews to assess the effectiveness of the corrective actions. These reviews aimed to evaluate whether the recommended changes were successfully implemented and if they addressed the identified weaknesses. BMG auditors also advised DDC to ensure that monitoring of governance and compliance practices becomes an integral part of the company's culture.

Required:

- (a) Explain **FIVE** risks that BMG auditors may have identified while conducting the governance and compliance audit at DDC. (10 marks)
 - (b) While briefing his team, Mark West, the lead auditor, emphasised the importance of documentation in the audit process.
Assess **FIVE** factors to consider during audit documentation. (10 marks)
 - (c) Discuss **FIVE** merits of the method used to collect data from key personnel across various departments at DDC. (10 marks)
 - (d) Analyse **FIVE** elements of the governance and compliance audit engagement that was intended to further boost the confidence of shareholders at DDC. (10 marks)
- (Total: 40 marks)**

QUESTION TWO

- (a) Rob Pili is conducting a computerised governance audit for a client.
Identify **SEVEN** challenges he is likely to encounter during this exercise. (7 marks)
 - (b) Walter Tight is a highly regarded auditor due to his professional skepticism.
Describe **FOUR** attributes of professional skepticism. (8 marks)
- (Total: 15 marks)**

QUESTION THREE

- (a) The purpose of the governance audit is to ensure that the organisation conforms to the highest standards of good governance.
Analyse **FOUR** parameters covered in this audit. (4 marks)
 - (b) Discuss **FIVE** factors that a client could consider before awarding a governance and compliance contract to a prospective firm. (5 marks)
 - (c) Assess **SIX** elements that could be addressed by a governance audit consultancy firm's system of quality control. (6 marks)
- (Total: 15 marks)**

QUESTION FOUR

- (a) XYZ Governance Auditors has just submitted a report to Jiji Sellers after conducting a governance audit.
Identify **SEVEN** the users of this report. (7 marks)
 - (b) Evaluate **FOUR** roles of the board in the implementation of governance audit recommendations. (8 marks)
- (Total: 15 marks)**

QUESTION FIVE

- (a) Explain **FIVE** elements of subsequent events in post-governance and compliance audit activities. (5 marks)
 - (b) Juma has been appointed as a peer reviewer in a governance audit assignment.
Identify **FIVE** of his responsibilities. (5 marks)
 - (c) Summarise **FIVE** factors considered by judges during governance awards such as Champions of Governance (COG) under the board composition and structure parameters. (5 marks)
- (Total: 15 marks)**

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CS ADVANCED LEVEL

GOVERNANCE AND COMPLIANCE AUDIT

TUESDAY: 25 April 2023. Morning Paper.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Do NOT write anything on this paper.

QUESTION ONE

MSWAKI ENTERPRISES LIMITED

Mswaki Enterprises Ltd. (MEL) was established in the year 2000 as a wholly-owned family business operating in Nairobi, Kenya. The company's main business is production of various products from value-addition of fruits. The firm has contracted farmers all over the country who ensure that it has a steady supply of fruits. Once fruits are received at the company, it adds value and supplies the produce to supermarkets and retail shops.

MEL is planning to expand its operations across the East African Region by opening subsidiaries and trading depots. Mr. Mswaki is the Chairman of the Board, his wife Hasidi, the CEO, and their three children; Maneno, Mengi and Machache are the directors in charge of the three functional departments. Major decisions are solely made by Mr. Mswaki with little input from the CEO and the other directors. The company has been consistently making profits over the years although many business analysts opine that MEL is a sleeping giant. The company has potential to grow into a regional giant in the fruits processing industry.

As per the law, the Regulator, a government agency managing the horticultural sector carried out a governance and compliance audit towards the end of last year. An inception meeting was held in November 2022 where the terms of engagement were unanimously agreed upon. The audit focused on reviewing statutory compliance requirements, quality standards and procedures, among other reviews. The assignment was carried out in two weeks and an audit report presented to the board.

The governance audit report revealed several areas of non-compliance. Concerns were raised regarding certain operating licenses and the product quality. Several products were flagged for not meeting market quality and packaging standards. Among the many recommendations, the Regulator directed the company to put in place corrective measures within three months to address the identified gaps. MEL was advised to hire independent directors in its board. The Regulator also demanded that MEL should be carrying out regular internal audits, statutory audits and legal audits.

Corporate governance matters had been thrown to the backburner at MEL as the audit report indicated which raised a red flag. This exposed the company to legal and reputational risks. Five senior managers had been sacked without following due legal procedure exposing the company to legal suits at the Employment and Labour Relations Court. The company had also been taken to court by the surrounding community for improper disposal of effluence from their industry into a nearby river.

The Regulator advised the company that governance audits needed to be carried out after every two years. This would help mitigate threats before they occurred. One of the Regulator's audit team member informed Mr. Mswaki that with these interventions, the company would be able to produce five times its current capacity. This jolted Mr. Mswaki into action and he organised an urgent board meeting to develop strategies and action plans to implement the recommendations.

Required:

- (a) Examine **FIVE** benefits of the governance audit report that was presented to the board of Mswaki Enterprises Limited (MEL) by the Regulator. (10 marks)
- (b) Analyse the importance of the governance audit inception meeting held in November, 2022 between the Regulator's audit team and MEL. (10 marks)
- (c) A red flag was raised due to a certain risk that MEL was exposed to. Evaluate the **FIVE** narrow risks associated with this red flag. (10 marks)
- (d) Analyse **FIVE** strategy implementation roles of the organ that was tasked to develop strategies and action plans for implementing the proposed recommendations by the Regulator. (10 marks)

(Total: 40 marks)

QUESTION TWO

- (a) In the context of governance audit, explain the following terms:
 - (i) Attestation. (1 mark)
 - (ii) Assurance. (1 mark)
 - (b) Explain **THREE** benefits which could accrue to an organisation that regularly carries out compliance audits. (3 marks)
 - (c) Reasonable assurance and limited assurance are two levels of assurance provided by auditors in their reports. Analyse **FIVE** differences between the two. (10 marks)
- (Total: 15 marks)**

QUESTION THREE

- (a) Describe **THREE** qualities of a good governance auditor. (3 marks)
 - (b) Outline **FOUR** documents that should accompany the completed Champion of Governance (COG) Awards self-assessment form submitted by an organisation to the Institute of Certified Secretaries. (4 marks)
 - (c) Evaluate **FOUR** roles of governance audit management letter. (8 marks)
- (Total: 15 marks)**

QUESTION FOUR

- (a) Explain **FIVE** aspects of effective communication in governance audit process. (5 marks)
 - (b) Evaluate **FIVE** roles of a Governance auditor in an audit assignment. (10 marks)
- (Total: 15 marks)**

QUESTION FIVE

- (a) Highlight **FIVE** working papers that may be maintained during governance audit. (5 marks)
 - (b) Outline **FIVE** limitations that may affect gathering of governance audit evidence. (5 marks)
 - (c) Identify **FIVE** post audit events that a governance auditor may consider after concluding an audit assignment. (5 marks)
- (Total: 15 marks)**
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CS ADVANCED LEVEL

GOVERNANCE AND COMPLIANCE AUDIT

TUESDAY: 6 December 2022. Morning Paper.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Do NOT write anything on this paper.

QUESTION ONE

GARI ENGINEERING SYSTEMS LIMITED (GSML)

Gari Engineering Systems Limited (GSML) is a water drilling, installation and purification company providing comprehensive water solutions. The company was incorporated in Kenya in year 2010 and has operations in various countries in East Africa. The initial founders of the company were all former employees of Katsmil Limited. The tenure of the directors of GSML Board varies from two years to five years with an option of one term renewal.

Since 2018, the company has been diversifying its service-offering to non-water related operations including real estate, transport services and sewerage treatment. This has necessitated mergers, acquisitions and takeovers in order to provide the GSML with latest technology, capital and expertise for it to excel in new operations. The company has been of late undertaking high value capital and labour intensive projects which regularly overrun their completion dates. Despite the various mergers, acquisitions and takeovers, the company still has capital challenges and seven years ago, it was forced to raise funds through a corporate bond. The bond issue was undersubscribed and realised Sh.2 billion, Sh.1 billion less than the expected amount. Owing to the huge projects, many of which were being done simultaneously, the funds were not adequate and many projects were not completed satisfactorily.

In early 2019, GSML entered into a strategic partnership with BbaHt Finance Pvt (BFP), an equity firm from South Africa that injected a huge chunk of funds into GSML. The board of directors of GSML was confident that the injected funds would help in completing all the ongoing projects and still have a surplus that could enable the company embark on new projects. According to GSML Finance Director, Sh.5 billion was provided by BFP to GSML in exchange for equity. It was agreed that BFP have a 30% of stake of GSML. According to valuation done during the bond issue, the market value of the 30% stake was Sh.7 billion and not Sh.5 billion.

Despite the injection of fresh capital into the company, the overall performance of the company did not improve as expected. This was largely attributed to poor performance of some branches. The poor performance of these branches was caused by various factors among them an unstable political situation, erratic weather and other environmental factors, economic factors as well as mismanagement.

Before GSML entered into the strategic alliance with BFP, its finance cost was very high. The company was highly geared and depleted most of the money intended for the projects. It utilised most of the inflows to repay debts. The strategic alliance, though attractive to the eye, was a poisoned chalice. Shareholders felt short-changed since they lost value in the transaction. The directors also did not consult shareholders before the alliance was arranged. A forensic investigation later revealed that BFP was owned by the directors of GSML and yet a conflict of interest was not declared by the directors in the conflict of interest register.

In view of the foregoing, shareholders demanded for an extraordinary meeting with the sole aim of dismissing the directors. It was argued that the directors should be personally held to account for issuing shares at a highly discounted rate. Shareholders were also of the general view that there was poor leadership, selfishness and poor corporate governance which had resulted to the deterioration of financial position and performance of the company. There was consensus that a consultant who had expertise in corporate secretarial practice be hired to undertake a governance and compliance audit of GSML.

All shareholders were eager to get the audit report within a short time and hoped their assertions would be supported. The engagement letter was expected to be issued as soon as possible to facilitate commencement of the exercise. The task was enormous given the operations of the company. However, as a good audit practice; audit sampling was expected to be undertaken.

Required:

- (a) You have been engaged as the Corporate Secretary to carry out the governance and compliance audit for GSML.
Describe **FIVE** provisions you would recommended in the constitutive documents of GSML to ensure that the shareholders are protected from the arbitrary powers of the board of directors. (10 marks)
- (b) The consultant was expected to undertake governance audit sampling.
Explain **FIVE** benefits the consultant would gain by performing governance audit sampling. (10 marks)
- (c) Examine **FIVE** methods that the consultant might follow to gather governance audit evidence for GSML. (10 marks)
- (d) Shareholders were eager to get the governance audit report.
Describe **FIVE** disclosures in the GSML governance audit report that are of interest to shareholders. (10 marks)
(Total: 40 marks)

QUESTION TWO

- (a) List **THREE** sources of audit criteria that are used in governance auditing. (3 marks)
- (b) Highlight **FOUR** professional responsibilities of a peer reviewer in governance audit process. (4 marks)
- (c) Discuss **FOUR** parameters that are evaluated in a governance audit. (8 marks)
(Total: 15 marks)

QUESTION THREE

- (a) Highlight **THREE** ways a governance auditor could reduce exposure to liability under an audit. (3 marks)
- (b) State **FOUR** roles of a compliance officer in relation to governance and compliance audit. (4 marks)
- (c) Discuss **FOUR** issues that should be addressed in the audit engagement letter. (8 marks)
(Total: 15 marks)

QUESTION FOUR

- (a) Identify **TWO** types of governance and compliance audits. (2 marks)
- (b) Summarise **FIVE** uses of governance audit working papers. (5 marks)
- (c) Evaluate **FOUR** techniques a governance auditor might use to ensure the effectiveness of a governance audit. (8 marks)
(Total: 15 marks)

QUESTION FIVE

- (a) Highlight **THREE** ways in which governance awards promote good corporate governance. (3 marks)
- (b) Illustrate **FOUR** post governance audit review procedures. (4 marks)
- (c) Describe **FOUR** roles of Information and Communication Technology (ICT) in the conduct of a governance and compliance audit. (8 marks)
(Total: 15 marks)
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CS ADVANCED LEVEL

PILOT PAPER

GOVERNANCE AND COMPLIANCE AUDIT

December 2021.

Time Allowed: 3 hours.

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

QUESTION ONE

MEDICO DIAGNOSTICS LIMITED (MDL)

Medico Diagnostics Limited (MDL) is an ultra-specialist medical laboratory. Started in year 2004 by two retired medical doctors in the Westland's suburb of Nairobi, the health services provider has steadily expanded to have laboratories in the main cities in Eastern Africa. Over this period MDL has experienced very minimal changes in the top management with Dr. Tom, one of the founders being the Executive Chairman since Dr. Tito the other founder member started ailing in 2009. Most of the Board Members have served continuously for over 10 years. Tommy, as he is affectionately called by employees, the Executive Chairman has hinted at retirement due to advanced age and having served in the combined role for 12 years of a full 17-year career at MDL. Although the Board of MDL has never formally considered the issue of succession planning, anxiety has started setting in at the MDL headquarter. This concern has arisen due to a number of factors. First is the advanced age of Dr. Tom, the poor health of Dr. Tito and the changing market dynamics facing MDL. MDL has operated as a niche medical provider since inception. However, this changed with the onset of the COVID- 19 in early 2020 that saw the demand for laboratory services increase astronomically. This saw MDL opening many satellite laboratories to meet the increasing demand for testing services. Established hospitals entered into testing service contracts with MDL. One of the young shining stars at MDL has been Dr. Shem, the Chief Operating Officer (COO). During one of the end of year parties for the Staff and Board, the Executive Chairman was overheard telling one of the invited guests that, "heading to my sunset years, I wouldn't mind leaving MDL in the hands of Dr. Shem... That lad will go places".

Dr. Shem has spearheaded the growth of MDL and especially in pinpointing strategic locations for the MDL satellite laboratories. The Board of Directors (BOD) is quite pleased with their COO's performance. The Board has 15 members with 12 being company executives heading specialised units and the other three being prominent medical personalities sourced from Tanzania, Uganda and Rwanda were MDL has operations. The three Non-executives were drafted in by the Executive Chairman due to their key expertise in MDL's regional markets. None have regular contact with shareholders and fellow board members. The board meets irregularly and mainly to review current financial performance. Dr. Shem as the COO has complete freedom to act with consultation with the Executive Chairman and this is widely seen as the reason for the company's positive trading position in a highly specialised and competitive medical field.

The Shareholders of MDL are also pleased with the performance of MDL and especially the performance during the COVID-19 pandemic which saw revenues more than triple. However, apprehension and reservations are being felt and expressed by some shareholders due to the advanced age of the Executive Chairman and Dr. Tito the ailing major shareholder and cofounder. Two Pharmacies who are institutional investors have aired their concerns as to the sustainability of the corporate governance structures and current corporate strategy especially whether enough demand for its laboratory services will exist post-pandemic and whether risks associated with the new markets make MDL over exposed and vulnerable. The Corporate Secretary has also advised the Board on the inadequacies of the current board structure, remuneration of directors which appears haphazard and determined by the Executive Chairman. There is also need for Board reappointments to be based on performance as determined by a formal board evaluation. The Board has only one committee named Executive Committee composed of the Executive Chairman, the COO and the other executive directors which meets only to discuss those issues the Board feels need to be allocated more time than what is available during its infrequent Board meetings. The Board lacks a formal charter and Board work plan and most board meetings are impromptu and attended by whoever is available without quorum requirements. This has been such a challenge for the regional non-executive directors who rarely attend board meeting.

While MDL has recognised the need to have the foreign directors from the regional markets who have influence and medical experience in their home countries, the corporate secretary has pointed out that the Board needs to be directly accountable to the shareholders of MDL. He has also recommended that a Governance and Compliance Audit and a Board Evaluation be conducted whose aim will be to advise the Board on best practices in corporate governance.

Required:

As an Accredited Governance Auditor and with reference to the scenario discussed above, discuss changes to governance structure that you would recommend for MDL. (10 marks)

- (a) Describe the role of Non- Executive Directors in MDL. (10 marks)
 - (b) Explain the scope of a board evaluation that should be conducted by MDL. (10 marks)
 - (c) Elaborate the responsibilities of the Remuneration Committee in improving the governance of MDL. (10 marks)
- (Total: 40 marks)**

QUESTION TWO

- (a) Governance audit criteria are benchmarks used to evaluate the subject matter in a governance audit. Explain the various sources of governance audit criteria. (5 marks)
 - (b) Explain the role of a compliance officer in governance and compliance risk management. (5 marks)
 - (c) Governance audit approaches and reports should not only address management and shareholder interests. Identify four other stakeholders of an organization and determine their different uses of a governance audit report. (5 marks)
- (Total: 15 marks)**

QUESTION THREE

- (a) Discuss the professional principles that bind a governance auditor and his engagement team while conducting a governance audit. (4 marks)
 - (b) Before accepting a governance audit assignment, a governance auditor is required to carry out due diligence concerning his independence. Explain three independence compliance requirements for an auditor. (3 marks)
 - (c) Efficient governance audits require adequate planning. Highlight the importance of Governance Audit Planning. (4 marks)
 - (d) The Current Governance Audit File (CGAF) - contains information and audit evidence relating to the current period under review, the purpose of which is to support the opinions and statements made in the audit report. Discuss four typical contents of CGAF. (4 marks)
- (Total: 15 marks)**

QUESTION FOUR

- (a) Explain the issues that are likely to be highlighted in a management letter in the conduct of a governance audit. (4 marks)
 - (b) Explain four methods of collecting governance audit evidence that can be used to form a governance audit opinion. (4 marks)
 - (c) Explain three possible impacts of a qualified governance audit report. (3 marks)
 - (d) Discuss the challenges organizations a likely to face in implementing governance and compliance audit recommendations. (4 marks)
- (Total: 15 marks)**

QUESTION FIVE

- (a) A Governance Audit Report presents a report on circumstances prevailing within the defined audit period and immediately after the period of audit. Discuss four post governance audit events that a governance auditor may include in the governance audit report. (5 marks)
 - (b) Discuss the professional responsibilities of a Peer Reviewer in governance auditing. (5 marks)
 - (c) The ICS Champions of Governance (COG) Award is a voluntary best practice award for excellence in governance to organizations and individuals who have exhibited the highest standards of practice of good governance. Explain the parameters that are evaluated in the ICS COG Award. (5 marks)
- (Total: 15 marks)**



CS ADVANCED LEVEL

GOVERNANCE AND COMPLIANCE AUDIT

TUESDAY: 2 August 2022. Morning paper.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of each question. Do NOT write anything on this paper.

QUESTION ONE

MARKWELN EREKTA ENTERPRISES LIMITED (MEEL)

MarkwelN EreKta Enterprises Limited (MEEL), a private limited company based in Nairobi was established in Kenya in the year 2010 as a manufacturing entity. The company's products targeted the middle-class city dwellers. MEEL started operations with several product lines. With growing demand for its products and increasing investors interest, the company rapidly expanded its product range and opened branches in major towns of Kenya. Four years ago, the company opened its first subsidiary outside Kenya and currently has eight of them spread across Africa.

The company's board upholds diversity and tries as much as possible to ensure board effectiveness. Since its establishment, the board has never been audited. During a board meeting held in December 2021, it was resolved that the board should undertake governance audits. This good governance practice would ensure that appropriate governance mechanisms and processes are in place to mitigate against compliance risk, liabilities and penalties. The board's audit committee was tasked with the responsibility of sourcing for a governance auditor.

Monicker Associates Limited (MAL) was appointed as MEEL governance and compliance auditors for the year 2022. Immediately after their appointment, the auditor set out to gather the necessary documents that would provide audit evidence. The lead auditor was categorical that collecting audit evidence would not be an easy task given that the company had not been audited since its inception. However, he was positive that they would deliver quality audit within the agreed timelines. The auditor's confidence was based on the fact that he had participated in governance audit peer reviews. All his reviews had been positive.

The corporation secretary had presented an idea to the board chair on the need to enter and participate in corporate awards. This elated the chair who in turn invited the auditor to the last board meeting and requested him to prepare and make a presentation to the board on the whole process of participating in the Institute of Certified Secretaries (ICS) Champion of Governance (COG) awards. At the end of the presentation, the board was convinced that participation in the COG awards would be beneficial to the company. The company started preparations for participation in the awards in earnest.

Required:

- (a) Examine five factors that MEEL board's audit committee should consider while negotiating the fees to be charged in an audit engagement. (10 marks)
 - (b) Analyse five factors that MAL should consider while determining the nature, timing and extent of audit procedures in relation to gathering their audit evidence. (10 marks)
 - (c) MAL has been participating in governance audit peer reviews.
Assess five benefits they enjoy from such peer reviews. (10 marks)
 - (d) Discuss five roles of the Corporate Secretary while conducting the governance and compliance audit. (10 marks)
- (Total: 40 marks)**

QUESTION TWO

- (a) The purpose of documenting the audit work performed is both to enhance transparency about the work performed and to enable an experienced auditor having no previous connection with the audit understand significant matters arising during the audit, the conclusion(s) reached thereon, and significant professional judgments made in reaching those conclusion(s).

Identify the items that the documents implied above should cover. (8 marks)

- (b) The governance audit team is assembled to collectively have the necessary competence, knowledge, skills and expertise to perform the audit in accordance with professional standards.

Justify the above statement. (7 marks)

(Total: 15 marks)

QUESTION THREE

- (a) Explain five uses of an inception report. (5 marks)

- (b) Examine the process of developing a risk assessment matrix. (10 marks)

(Total: 15 marks)

QUESTION FOUR

- (a) A governance and compliance auditor should prepare an audit report based on crucial principles.

(i) Evaluate four of these principles. (4 marks)

(ii) Explain four impacts of non-compliance in a governance and compliance audit. (4 marks)

- (b) The audit committee is one of the key governance organs in an organisation.

With respect to the above statement, examine seven functions of an audit committee relating to the internal audit function. (7 marks)

(Total: 15 marks)

QUESTION FIVE

- (a) Explain the two types of subsequent events in governance and compliance audit. (4 marks)

- (b) To achieve the desired action recommendations, governance audit must have certain characteristics.

Analyse six of these characteristics. (6 marks)

- (c) Following up on audit findings and recommendations serves several purposes.

Examine five of these purposes. (5 marks)

(Total: 15 marks)

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CS ADVANCED LEVEL

GOVERNANCE AND COMPLIANCE AUDIT

TUESDAY: 5 April 2022. Morning paper.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of each question. Do NOT write anything on this paper.

QUESTION ONE

ZION HOLDINGS LIMITED(ZHL)

Zion Holdings Limited (ZHL) is a diversified investment company regulated under the Companies Act with a corporate structure consisting of a number of subsidiaries. The main activities of the subsidiaries are the holding of investments in various industries. Most of these subsidiaries are registered in various low tax jurisdictions. Although different shareholding percentages apply to the various layers of the structure, ZHL seems to have controlling interests in the subsidiaries although this cannot be determined with certainty.

ZHL has a board of directors comprised mostly of relatives of the majority shareholder Makenzi Odom, a regional dollar billionaire with government ties in most countries in the region. Board meetings are not regular and the employees of the company are not privy to the business that is discussed by the Board. Policy decisions are communicated by the Group Managing Director who is the son of Makenzi Odom to managers in the group. Minority shareholders have on several occasions complained that information provided to them by the holding company is usually scanty and always released late. In the organisation structure, the company has a provision for a compliance department, but compliance officers have never been employed to make the department functional.

Debits and Credits Associates (DCA) is an accounting firm offering administration, bookkeeping and corporate services to ZHL. The fees generated by DCA from ZHL amount to more than 5% of the firm's annual turnover. DCA suspects that ZHL is a holder of other undisclosed companies which may be administered by other service providers in the country, but this information could not be verified with certainty. Overall, there seems to be a tendency for secrecy when the employees of DCA seek to obtain information and documentation from the people acting as the representatives of ZHL hence, DCA is unable to identify the beneficial owners of ZHL. Information on the beneficial ownership and control of ZHL is somewhat scanty, although, DCA suspects that the whole structure belongs Makenzi Odom. Makenzi Odom wields a significant amount of power and he is known for being a major financier of political parties in the region. This makes him to have close links with the host governments where his investments are domiciled. He also has vast interests in a number of different industries and holds key positions in the Board of Directors of major regional companies.

Through threats of sanctions by the Registrar of Companies to ZHL, DCA, has now managed to receive the necessary documentation in order to carry out the bookkeeping of these companies for the last two years and this documentation revealed the following:

- The investments in various companies, especially start-ups, are acquired and are disposed of within a short period of time always at a profit.
- The subsidiary companies of ZHL have numerous bank accounts both in the country, regionally and in offshore tax havens and funds are being transferred between these bank accounts immediately upon deposit.
- The invoices for consulting and management services are predominantly issued to foreign companies. DCA accidentally found out that the billionaire owner of ZHL and his family are members of Board of Directors of the foreign companies.

ZHL has for a long time defaulted in meeting regulatory requirements and is suspected of being part of a regional money laundering syndicate. Your corporate services firm has been appointed to carry out a forensic, governance and compliance audit of ZHL and make a report to the Registrar of Companies and the Economic Crimes Unit, an investigative unit under the Directorate of Criminal Investigations.

Required

- (a) Analyse the possible audit evidence that may indicate money laundering activities at ZHL. (10 marks)
- (b) Outline five corporate governance principles that ZHL seems to have violated. (5 marks)
- (c) Describe seven challenges which you are likely to encounter in carrying out the governance and compliance audit at ZHL. (7 marks)
- (d) With reference to the governance and compliance responsibilities, analyse five roles that a compliance officer would have played at ZHL. (10 marks)
- (e) (i) Describe the term “beneficial owner” as used in the case. (2 marks)
- (ii) Suggest six reasons why the government requires companies such as ZHL to disclose beneficial owners. (6 marks)
- (Total: 40 marks)**

QUESTION TWO

- (a) Explain four sources of governance audit criteria. (4 marks)
- (b) Evaluate six governance and compliance risks that organisations face in the digital era. (6 marks)
- (c) Justify the usefulness of governance and compliance audits to various stakeholders of a company. (5 marks)
- (Total: 15 marks)**

QUESTION THREE

- (a) As a newly accredited governance auditor, illustrate five instances where an auditor may be found guilty of professional misconduct. (5 marks)
- (b) Your secretarial firm has received a request for proposal to conduct a governance audit for a multinational client.
- Required:**
Formulate the key headings of your proposal for professional governance auditing services for the prospective client. (5 marks)
- (c) Summarise five factors to consider during the preparation of governance audit working papers to make them more effective. (5 marks)
- (Total: 15 marks)**

QUESTION FOUR

- (a) Explain four reasons why a governance auditor should maintain audit files. (4 marks)
- (b) Summarise four benefits of governance audit checklist to the governance auditor. (4 marks)
- (c) Highlight four determinants of the reliability of governance and compliance audit evidence. (4 marks)
- (d) Propose three potential impacts of a qualified governance and compliance audit report. (3 marks)
- (Total: 15 marks)**

QUESTION FIVE

- (a) When it comes to implementing governance and compliance audit recommendations, the buck stops with the Board.
- With reference to the above statement, outline four roles of the Board of Directors. (4 marks)
- (b) Explain the term “subsequent events” in relation to governance and compliance audit. (2 marks)
- (c) Justify the practice of peer review in governance and compliance audit assignments. (5 marks)
- (d) Describe four parameters that could be evaluated in a governance award scheme such as Champions of Governance (COG) Awards. (4 marks)
- (Total: 15 marks)**
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CS ADVANCED LEVEL

GOVERNANCE AND COMPLIANCE AUDIT

THURSDAY: 16 December 2021.

Time Allowed: 3 hours.

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

QUESTION ONE

PURE WATER TECHNOLOGY (PWT)

Pure Water Technology (PWT) is a water treatment company providing comprehensive and integrated engineering solutions for water purification and waste water treatment systems. The company was incorporated in Zambia in 2008 but has operations in many countries in Africa and South America.

In 2009, the company diversified its operations to cover Engineering, Procurement, Construction and Commissioning (EPCC) contracts for water purification systems and waste water treatment systems.

Most of PWT's projects are generally labour intensive and they require considerable upfront capital outlay. The company has been facing financial problems leading to delayed completion of projects. Due to a weak capital base, the company was forced to raise finances in 2011 through a bond issue.

Although the company raised Sh.1 billion, the funds were still inadequate to ensure PWT completed projects in time and to the satisfaction of its clients and other stakeholders.

In May 2013, PWT entered into a strategic alliance with TII Infrastructure, a private equity firm from the United Kingdom. TII injected the much needed funds into PWT with the hope that PWT would be able to complete all pending projects and secure more businesses in the countries they were in operation. In total, PWT got Sh.2 billion from TII in exchange for a 40% shareholding. The market value of the 40% stake however was Sh.4 billion. PWT continued to post poor results despite raising significant finances from TII Infrastructure. The poor performance of PWT in some countries was attributed to harsh micro economic conditions, erratic cash flows due to low projects completion rates and mismanagement of projects.

Before the strategic alliance with TII Infrastructure, PWT's finance cost was very high as the company was highly geared. This depleted projects money as a lot of inflows were first used to repay debts.

Although PWT initially was able to leverage on TII Infrastructure's financial muscle and business expertise, the initial shareholders value had greatly been eroded. The shareholders felt short changed since they were not consulted when PWT's directors arranged for the strategic alliance with TII. It later emerged that TII infrastructure was owned by the directors of PWT and this matter was not declared in the directors conflict of interest register. The shareholders of PWT forced an extraordinary general meeting in August 2015 with the aim of dismissing the directors.

During the meeting, shareholders argued that the directors did not promote the success of their company, were secret owners of TII Infrastructure and should be held accountable for issue of shares to TII Infrastructure at a grossly discounted price. Levi Smart, one of the shareholders felt that deterioration of the financial health of the company was as a result of poor leadership, corporate misgovernance and directors selfish interests. He further argued that the board of directors lacked diversity in competencies as all the six directors were drawn from engineering and energy sectors. Another shareholder argued that the directors of PWT had secretly been planning to take over PWT through TII Infrastructure.

The Board of PWT appointed Mape Associates (MA), a corporate secretarial firm to carry out a governance and compliance audit and prepare a report. The firm hit the ground running before getting a formal engagement letter.

Required:

- (a) During the audit, the Board of Pure Water Technology (PWT) requested Mape Associates (MA) to enlighten them on the importance of compliance certificate in governance audits.

Assuming you were tasked with this role, outline five roles played by compliance certificate.

(5 marks)

- (b) Mape Associates are expected to carry out a governance and compliance audit for PWT.
- Required:**
Highlight seven contents of a governance and compliance audit report that Mape Associates must include in the report. (7 marks)
- (c) The strategic alliance between PWT and PII Infrastructure left many shareholders dissatisfied.
- Assuming that Mape Associates recommended in their report that a forensic audit be carried out, highlight five objectives of a forensic audit. (5 marks)
- (d) Discuss five challenges that Mape Associates could face while gathering audit evidence. (10 marks)
- (e) Examine five merits of an external peer review of Mape Associates' governance and compliance audit work at Pure Water Technology. (5 marks)
- (f) As a best practice, it is advisable to start a governance and compliance audit after receiving an engagement letter.
- Assess four risks that Mape Associates could face for starting the work before receiving an engagement letter. (8 marks)
- (Total: 40 marks)**

QUESTION TWO

- (a) In order to ensure good governance in our institutions, the Board should ensure the management undertakes a governance audit.
- In view of the above:
- (i) Outline eight parameters which should be covered in a governance audit. (8 marks)
- (ii) Describe five documents that a governance auditor would require for a desk review prior to conducting a governance audit. (5 marks)
- (b) Explain two circumstances under which the engagement of a governance auditor might be terminated. (2 marks)
- (Total: 15 marks)**

QUESTION THREE

- (a) Analyse five items that might be included in a management representation letter. (5 marks)
- (b) In a governance audit carried out in a state corporation, the governance auditor observed that there were material weaknesses in internal controls related to the prevention of fraud and errors.
- With reference to the above statement:
- (i) Explain the recommendations you would give to the management and the Board of the state corporation to address the weaknesses. (5 marks)
- (ii) Explain five limitations of internal control systems. (5 marks)
- (Total: 15 marks)**

QUESTION FOUR

- (a) Discuss four types of governance and compliance audit evidence. (8 marks)
- (b) Summarise seven professional principles that guide a governance auditor and his engagement team while conducting a governance audit. (7 marks)
- (Total: 15 marks)**

QUESTION FIVE

- (a) Examine eight post governance audit events that could be included in the governance and compliance audit report. (8 marks)
- (b) Describe seven components of a governance audit report. (7 marks)
- (Total: 15 marks)**
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CS PART III SECTION 6

GOVERNANCE AND SECRETARIAL AUDIT

FRIDAY: 27 November 2015

Time Allowed: 3 hours.

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

QUESTION ONE

The Board of Directors of ABC Ltd. are desirous of undertaking a governance audit and have requested your advice and guidance.

Required:

In relation to the above statement, advise the Board on the following:

- (a) The benefits of undertaking a governance audit. (6 mark)
 - (b) The key areas to focus on when undertaking the governance audit. (8 marks)
 - (c) Challenges that are likely to be encountered when undertaking the governance audit. (6 marks)
- (Total: 20 marks)**

QUESTION TWO

(a) You have been engaged by a multinational organisation to undertake a governance audit. In order to accomplish the assignment, establish the following:

- (i) The factors that could determine the amount of evidence required to ensure a comprehensive governance audit. (7 marks)
- (ii) The limitations likely to be encountered when gathering the evidence for the governance audit. (7 marks)

(b) Explain the importance of adhering to the professional code of ethics and conduct when undertaking a governance audit. (6 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Discuss four issues relating to boards that could be addressed in a governance audit. (4 marks)
 - (b) Analyse the factors that should be taken into account when carrying out a board performance evaluation. (7 marks)
 - (c) Outline the role of standards in governance audit. (6 marks)
 - (d) Discuss the legal provisions governing the use of a common seal. (3 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) As an expert in the area of governance audit, explain the matters that should be included in a governance audit strategy. (10 marks)
 - (b) Outline five steps that should be followed when preparing to carry out a secretarial audit. (5 marks)
 - (c) Outline five roles of the Audit Committee. (5 marks)
- (Total: 20 marks)**

QUESTION FIVE

Your firm has been engaged to carry out a secretarial audit in a blue chip company.

Explain the matters that you would expect to find in relation to the register of members on the aspects listed below:

- (a) Contents of the register of members. (3 marks)
 - (b) Changes and alterations to the register of members. (3 marks)
 - (c) Legal provisions on inspection of the register of members. (8 marks)
 - (d) Rectification of the register of members. (6 marks)
- (Total: 20 marks)**
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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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CS PART III SECTION 6

GOVERNANCE AND SECRETARIAL AUDIT

FRIDAY: 21 May 2021.

Time Allowed: 3 hours.

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

QUESTION ONE

PM & Associates is a Certified Secretaries firm where you are one of the partners. The firm was contracted by Queen Bee PLC, a publicly listed company to conduct a governance audit for the financial year ended 31 June 2020.

Required:

- (a) Explain the importance of the governance audit report that your firm prepared to the following interested parties:
- (i) Members of the board of Queen Bee PLC. (2 marks)
 - (ii) Shareholders of Queen Bee PLC. (2 marks)
 - (iii) Capital Markets Authority (CMA). (2 marks)
 - (iv) Queen Bee PLC bankers. (2 marks)
- (b) Sketch a matrix to demonstrate the parameters you used in determining the level of compliance to the Institute of Certified Secretaries (ICS) issued governance standards:
- (i) GS 001 - General Meetings. (4 marks)
 - (ii) GS 002 - Meetings of the Board. (4 marks)
 - (iii) GS 003 - Minutes. (4 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Discuss four ways in which an in-house company secretary might help the board to strengthen governance practices using governance standards. (8 marks)
- (b) Maoni & Maono Certified Secretaries firm has three partners. The firm has just concluded a governance audit assignment and issued a qualified opinion. The audit opinion was signed in the name of the firm.

Required:

Examine three reasons which would make the client to question the audit opinion issued in the name of Maoni & Maono Certified Secretaries. (6 marks)

- (c) With reference to governance and secretarial audit, explain the following terms:
- (i) Forensic governance audit. (2 marks)
 - (ii) Peer review. (2 marks)
 - (iii) Expert's opinion. (2 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Evaluate the significance of a management letter in the governance audit process. (4 marks)
 - (b) Examine five key roles played by the Institute of Certified Secretaries (ICS) in the governance audit process. (10 marks)
 - (c) Outline six activities that the auditor should carry out during the planning stage of a governance and secretarial audit. (6 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Working papers are integral in ensuring quality of a governance audit.
Required:
 - (i) With regard to the above statement, explain five other benefits contributed by working papers. (5 marks)
 - (ii) Highlight five contents of working papers. (5 marks)
 - (b) Assess five contents of a governance compliance checklist, citing a document to be reviewed for evidence in each case. (10 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Explain the term "secretarial audit". (2 marks)
 - (b) Outline six general principles that each member of the engagement team is required to observe while carrying out a governance and secretarial audit assignment. (6 marks)
 - (c) With regard to governance control systems in an organisation, evaluate the role of the board in risk management. (6 marks)
 - (d) Analyse three challenges that a governance auditor might face while carrying out due diligence on a prospective client. (6 marks)
- (Total: 20 marks)**
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CS PART III SECTION 6

GOVERNANCE AND SECRETARIAL AUDIT

MONDAY: 30 November 2020.

Time Allowed: 3 hours.

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

QUESTION ONE

POTS AND PANS LIMITED (PPL)

Pots and Pans Limited (PPL) is a fairly successful franchise food retailer that has rarely been out of the news in the last year. The company's admission in September 2018 that it had understated its half year profits by Sh.89 million in an attempt to under pay royalties to the Franchiser has raised questions about the competency and composition of the company's board of directors (BOD) and the use of inappropriate accounting policies. Prior to the appointment of two non-executive directors on 7 October 2019, PPL's board did not have independent directors leave alone having any with a financial management background and experience. This weakness in financial expertise suggested the board was unlikely to have the necessary knowledge and expertise to effectively question and challenge the company's executives on financial matters.

While the external auditors in the company's 2017 annual report and financial statements discussed the "risk of manipulation" in the recognition of business income, this did not prevent the company from treating a contingency liability as having crystallised and being treated as an actual cost which understated the anticipated profits. The accounting treatment adopted was, one would assume, accepted by the audit committee and the profit figures subsequently signed-off by the board. The issue only subsequently emerged when one of the company's employees questioned the accounting treatment under the company's whistle blowing programme.

A media correspondent, writing about PPL in a weekly business magazine, suggested the issues of board composition and income and cost recognition point to failure in the current system of corporate governance of PPL. He pointed out that although the codes of Corporate Governance do not expressly require non-executive directors to have financial management experience, the adoption of inaccurate estimates of business income and treatment of costs reflects a "failure to establish adequate regulatory mechanisms for curbing abuses of corporate power". He suggested that reform is urgently needed and regulators needed to move in with speed. He recommended the immediate constitution of a board audit and risk committee at PPL.

On 30 November 2018, PPL held an extraordinary general meeting to update and reassure investors on its financial position. The company acknowledged that its profits had been understated by Sh.89 million against an initial estimate of Sh.150 million. The understatement was the result of a deliberate incorrect recognition and treatment of a contingency liability. Together with updating the investors on its results, the company announced that the chairman of the board would be stepping down from his position and that the board had suspended the Chief Executive Officer (CEO) and that the Chief Operating Officer (COO) would take over in an acting capacity until a new substantive CEO was recruited.

On 4 December 2018, the capital markets regulator and the Economic Crimes Bureau announced they had launched a criminal investigation into the alleged accounting irregularities at PPL. In early January 2019, the shareholders held another extraordinary meeting and resolved to appoint a governance auditor to carry out a comprehensive audit into the governance practices at PPL.

Required:

- (a) As the Governance Auditor appointed by PPL, advise the shareholders of PPL on five ways on how sound corporate governance practice could make it more difficult for companies to experience malpractices and imminent failure. (5 marks)
- (b) Explain to the directors of PPL their responsibilities on financial reporting. (5 marks)

- (c) Examine five ways in which non-executive directors (NEDs) could be made more effective and independent. (5 marks)
 - (d) Discuss five roles of the audit and risk committee that the regulator recommended to be reconstituted at PPL. (5 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Explain how a governance auditor would rely on information obtained from the following sources in the process of conducting a governance audit:
 - (i) In-house certified secretary. (4 marks)
 - (ii) Regulatory oversight bodies. (4 marks)
 - (b) Analyse four roles that the Institute of Certified Secretaries (ICS) is expected to play in governance and secretarial audit practice. (8 marks)
 - (c) In the course of planning for a governance audit, among the activities to be undertaken by the governance auditor before the actual process of audit is to arrange a preliminary meeting with the client.

Explain how such a meeting will be of benefit both to the governance auditor and the client. (4 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Governance audit tools cover the governance audit parameters within which the entity is subjected to audit.

With reference to the above statement, propose seven such parameters within which governance audit is conducted. (7 marks)
 - (b) Discuss four general principles of governance audit. (8 marks)
 - (c) Examine five supporting documents that should accompany the self-assessment tool during the Institute of Certified Secretaries (ICS) Champion of Governance Award process for participating institutions. (5 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Analyse how the use of the work of experts could be applied by a governance auditor to make judgement on his findings. (3 marks)
 - (b) Explain how the terms of engagement of a governance auditor in the context of form and content of the engagement letter may vary for different governance audits. (4 marks)
 - (c) Explain five responsibilities of management in relation to governance control systems and risk management. (5 marks)
 - (d) Discuss four post governance audit events that a governance auditor might include in the governance audit report. (8 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) With reference to Mwongozo, the Code of Governance for State Corporations, discuss five responsibilities of the board in stakeholder engagement. (5 marks)
 - (b) Develop terms of reference (TOR) for a governance peer reviewer. (10 marks)
 - (c) Suggest five recent drivers of good governance and secretarial audit in your country. (5 marks)
- (Total: 20 marks)**
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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:

- (a) As a governance practitioner, suggest five measures that City Improvement Support Services Ltd. (CISSL) could employ to strengthen its governance practice. (5 marks)
- (b) Propose five potential risks in relation to the financial management practice adopted by CISSL. (5 marks)
- (c) 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

- (a) 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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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:

- Justify to the directors of Motokaa Hauliers Ltd. (MHL) five responsibilities of the remuneration committee in improving corporate governance. (5 marks)
- Advise the directors of MHL on five responsibilities of the board in relation to risk management. (5 marks)
- Discuss with the directors of MHL, five roles of independent directors in enhancing good corporate governance. (5 marks)
- 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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CS PART III SECTION 6

GOVERNANCE AND SECRETARIAL AUDIT

FRIDAY: 30 November 2018.

Time Allowed: 3 hours.

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

QUESTION ONE

NGAMANI COMMERCIAL LIMITED (NCL)

Santa Mwangudza joined the board of directors of Ngamani Commercial Limited (NCL) that deals with consultancy in secretarial services and manufacturing of pharmaceutical products. She was invited to join the board of directors by the board chairman, her long-time friend and proprietor of the company.

Following her appointment, she began to learn about the activities of the company. However, there are still some aspects of operations and funding which are not clear to her. She is particularly concerned with the following:

- There exists some disagreements between the directors regarding the main mandate of the company. Some directors support the consultancy in secretarial services as the main activity while others support the manufacturing of pharmaceutical products.
- The board has held only one meeting since Santa was appointed three years ago. The board consists of four directors, one of whom is the wife of the chairman of the board and two independent directors.
- Most of the company policy decisions are made by the Chief Executive Officer (CEO) and his top management team.
- Since her appointment, Santa felt that she had made very little contribution as a director. Santa became frustrated after she was tasked severally by the board chairman to look for potential individuals or companies that could sponsor NCL with requisite funds. She does not consider that role to be within her area of responsibility as a board member.

Santa subsequently realised that NCL had been suffering from a decline in profitability in the past years due to rising administrative costs. The company and its activities were not well known by the members of the public. This had resulted into declining revenues due to lack of publicity and marketing. She believed that the Board was not paying due attention to two main areas namely, revenue and cost.

You are a corporate secretary who is conversant with the code of governance for private organisations. Santa has shared with you her concerns on governance issues in NCL.

Required:

- (a) Discuss five indicators that Ngamani Commercial Limited (NCL) might not be applying principles of good governance in its day to day operations. (10 marks)
 - (b) Summarise five roles that the independent directors of NCL were expected to discharge. (5 marks)
 - (c) Advise the Board of NCL on five measures it could take in order to fulfil its role. (5 marks)
- (Total: 20 marks)

QUESTION TWO

- (a) A governance audit engagement letter is a contract for services between the governance auditor and the auditee.

Describe five key issues that should be addressed in the governance audit engagement letter. (5 marks)

- (b) Recent years have witnessed increased incidences of procurement fraud.

With reference to Mwongozo: "The code of governance for state corporations", or equivalent document in your country, discuss five board governance practices with respect to procurement processes. (5 marks)

- (c) Governance audit approaches and reports should not address management and shareholder interests only.

With reference to the above statement, identify five other stakeholders and determine their different uses of the governance audit report. (5 marks)

- (d) Increased regulatory oversight, agency enforcement and complexity in the regulatory environment have necessitated the creation of a compliance officer position in organisations.

Required:

Draft job description of a compliance officer in governance control management.

(5 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Before accepting a governance audit assignment, a governance auditor is required to carry out due diligence concerning his independence.

Explain four independence compliance requirements for a governance auditor. (4 marks)

- (b) Evaluate four benefits of governance audit planning. (4 marks)

- (c) Outline four contents of the current governance audit file. (4 marks)

- (d) The Institute of Certified Secretaries (ICS) Champions of Governance (COG) Award is a voluntary best practice award for excellence in governance for organisations and individuals who have exhibited the highest standards of practice of good governance.

Explain four parameters that are evaluated in the ICS COG Award. (4 marks)

- (e) Recent times have experienced spectacular corporate failures despite financial auditors issuing clean reports.

Assess how governance audits could be used to improve corporate audits. (4 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) An audit cycle is a process that governance auditors employ in the review of a company's governance information.

In relation to the above statement, analyse the steps involved in governance audit cycle. (10 marks)

- (b) Evaluate six factors that might be considered in developing governance audit strategy. (6 marks)

- (c) Summarise four matters that a governance audit firm should put into consideration before accepting an audit engagement. (4 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) (i) Describe the term "NOCLAR" as an international ethics standard for auditors. (3 marks)

(ii) Discuss five key values of NOCLAR standard to corporate governance. (5 marks)

- (b) The board of directors of XYZ Limited have appointed you to conduct a special governance audit as directed by the Government for a subsidiary of one of its public limited companies.

Required:

Examine six circumstances under which a government might order a special governance audit. (6 marks)

- (c) "Governance and risk management is a responsibility of the board of directors". This statement was made by a governance auditor during an executive retreat for senior managers.

With reference to the above statement, analyse six responsibilities of management in relation to governance control systems and risk management. (6 marks)

(Total: 20 marks)

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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)



CS PART III SECTION 6

GOVERNANCE AND SECRETARIAL AUDIT

FRIDAY: 1 December 2017.

Time Allowed: 3 hours.

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

QUESTION ONE

SIGAMANYA LIMITED

Richard Kiti is the chairman of the board of directors of Sigamanya Limited, a public listed company in the technology sector. He also doubles up as the chairman of the nomination committee. The chairman has requested you as the company secretary of Sigamanya Limited to discuss the feedback received from the recent annual performance review of the board, its committees and the independent directors.

The Board consists of eight directors comprising the chairman, two executive directors and five independent non-executive directors. Among the directors of the board, only one is a female director. The external secretarial auditors who undertook the performance review of the board indicated several weaknesses with some of the non-executive directors (NEDs).

A recently appointed NED has complained to the auditors that she did not receive enough support from the company when she was appointed. According to her, being given copies of the minutes of past board meetings, being taken on a tour of several offices of the company and holding two meetings with the company secretary to discuss the company's affairs was not sufficient induction training.

Another NED was accused by fellow directors of wasting time at board meetings and committee meetings by talking for too long. It was also argued that he was not preparing adequately by reading the board papers before commencement of the meetings.

A third NED was accused by colleagues of failing to contribute adequately to discussions in board meetings. He was an ex-government minister who had some useful political connections which might benefit the company.

A fourth NED who was the chairman of the audit committee has been a board member for ten years. He had just finished the first year of a renewed three-year contract, subject to annual re-election by the shareholders.

The Chief Executive Officer (CEO) has also raised in confidence another problem. He stated that, at the moment there were just two executive directors on the board, the CEO and the Human Capital Director. The chief finance officer (CFO) had informed the CEO that the time was ripe for him to be appointed to the Board in order to further his career. If he does not get the appointment that he is hoping for, he will probably resign and look for boardroom opportunities with other companies. The CEO has reaffirmed that he does not want to lose the services of the chief finance officer.

Required:

- (a) Discuss three responsibilities of the board chairman of Sigamanya Limited in relation to the annual performance review of the board in compliance with the corporate governance code of your country. (6 marks)
- (b) Advise Richard Kiti on five measures he might consider, in response to the findings of the performance review of the directors of Sigamanya Limited in order to improve board effectiveness. (10 marks)
- (c) As the company secretary of Sigamanya Limited, discuss how you would respond to the request of the chief finance officer for an appointment to the board. (4 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Differentiate between "diversion of funds" and "siphoning of funds". (4 marks)
- (b) You have been engaged by Waamini Limited, a company that is involved in the distribution of fast moving consumer goods to develop and recommend the implementation of annual board evaluation system in the company.
Discuss five main steps you would adopt in working with the Board of Directors to implement an annual board evaluation system at Waamini Limited. (5 marks)
- (c) As a practicing Certified Secretary, generate five issues that are likely to inform your focus in a due diligence process where your client intends to invest significant amount of money in an existing business. (5 marks)
- (d) The board of Mwembeswere Ltd. has recently grown in size. The chairman of the board, Mongo Chilabu is considering how to enhance its effectiveness, particularly in terms of decision making.

The company operates in the information communication technology industry, a highly dynamic technical field. The board decisions are usually delayed due to a significant volume of technical questions raised at its board meetings. These questions have to be referred to the relevant technical team within the company or be directed to external advisors who had assisted in the research and development of the technology. Majority of the directors have also highlighted that the volume and complexity of the board papers is an issue. There is insufficient time to fully digest the information presented in the board papers prior to meetings.

Required:

As the company secretary, advise the board of Mwembeswere Ltd. on how to overcome the issues it is experiencing. (6 marks)
(Total: 20 marks)

QUESTION THREE

- (a) Elucidate the salient features of fraud risk management policy in a public limited company. (6 marks)
- (b) Internal audit has long been part of good corporate governance. Today, a growing number of boards, audit committees and management view the audit function as an important governance activity that offers significant benefits to the organisation. To achieve this potential, however, an internal audit must show superior levels of performance and effectiveness.

Required:

Assess the effectiveness of an internal audit function as a key player in corporate governance. (8 marks)

- (c) Many jurisdictions require listed companies to include a statement on their internal control systems in their annual reports. In some instances, there is need for the internal auditors and the board to report on the procedures used.

Required:

In relation to the above statement, describe good governance practices in reporting on internal control systems as per the corporate governance code of your country. (6 marks)
(Total: 20 marks)

QUESTION FOUR

- (a) (i) Describe the term "integrity pact". (2 marks)
- (ii) Evaluate the monitoring mechanism under the integrity pact developed by Transparency International. (6 marks)
- (b) A practicing company secretary ignored some material discrepancies while issuing out a compliance certificate to a company.
In relation to the above aspects, analyse the professional responsibility involved in issuing a compliance certificate. (6 marks)
- (c) Assess the significance of compliance of secretarial standards for good governance in organisations. (6 marks)
(Total: 20 marks)

QUESTION FIVE

- (a) A majority of the board of directors of Debby Ltd. have realised that some of the business activities carried out in the name of the company are not in the interest of either the company or its members.

The directors propose that the company should make an application to the court to appoint an inspector to carry out an investigation so as to find out the whole truth.

Required:

- (i) Examine the procedure that should be followed by the directors to get the company's affairs investigated as per the Companies Act. (4 marks)
- (ii) As the company secretary, draft the application to the court. (12 marks)
- (b) The directors of a public company are aware that they are likely to be prosecuted for an offence under the Companies Act which is not compoundable.

Assess the circumstances under which the directors could seek relief from the liability for the offence as provided under the Companies Act. (4 marks)

(Total: 20 marks)

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CS PART III SECTION 6

GOVERNANCE AND SECRETARIAL AUDIT

FRIDAY: 26 May 2017.

Time Allowed: 3 hours.

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

QUESTION ONE

- (a) Explain the process to be followed in order to ensure that a governance audit is credible. (10 marks)
- (b) Discuss five parameters to be focused on while undertaking a governance audit. (10 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Discuss the stages to be followed when carrying out investigations in a forensic audit. (8 marks)
- (b) Summarise six issues that might be highlighted in a management letter in a governance audit. (6 marks)
- (c) Explain the importance of an audit review before preparing a governance audit report. (6 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Describe five items in the engagement letter which might help a governance auditor to carry out his role effectively. (10 marks)
- (b) Analyse the circumstances where a governance auditor might issue a qualified opinion. (3 marks)
- (c) Explain the circumstances under which an audit opinion might be revised. (3 marks)
- (d) Summarise four areas which a governance auditor and an expert in the specific area of the governance audit should agree upon prior to commencement of the audit. (4 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Outline five functions of the Institute of Certified Public Secretaries in your country. (5 marks)
- (b) Summarise five matters to be considered when carrying out a secretarial audit with regard to compliance with terms and conditions of listing agreement. (5 marks)
- (c) Outline five reasons that could lead to the withdrawal of a company secretary's practising certificate. (5 marks)
- (d) Discuss five ways in which a company secretary could minimise outstanding dividend and interest warrants in a company. (5 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Prepare a checklist of issues to be taken into account when issuing bonus shares in a listed company. (10 marks)
- (b) With reference to audit governance practices, explain the following compliance areas:
- (i) Accountability. (5 marks)
- (ii) Disclosure and transparency. (5 marks)
- (Total: 20 marks)**
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CS PART III SECTION 6

GOVERNANCE AND SECRETARIAL AUDIT

FRIDAY: 25 November 2016.

Time Allowed: 3 hours.

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

QUESTION ONE

- (a) Discuss four provisions that might be contained in the guidelines on professional ethics and conduct that a certified secretary is bound to observe in the course of his work. (8 marks)
- (b) Explain four advantages of engaging depository participants. (4 marks)
- (c) (i) Identify four possible hurdles that might be encountered while carrying out a legal compliance audit. (4 marks)
- (ii) Explain how the hurdles identified in (i) above could be addressed. (4 marks)
- (Total: 20 marks)

QUESTION TWO

- (a) As a certified secretary in practice with expert knowledge in governance and secretarial audits, discuss six factors that might prevent some boards of directors from exercising visionary leadership with entrepreneurial spirit, risk taking and strategic thinking. (6 marks)
- (b) Discuss how secretarial audit can lead to better corporate governance in an organisation. (4 marks)
- (c) Explain five areas that should be covered in a corporate social responsibility audit. (5 marks)
- (d) Analyse the contents of a governance and secretarial audit report of a listed company. (5 marks)
- (Total: 20 marks)

QUESTION THREE

- (a) You are the company secretary of a large company that has established milk processing and distribution units in many parts of the country.
- Justify with four reasons why compliance under various environmental legislations is essential during strategic business decision making and sustainability. (4 marks)
- (b) Explain the systems approach to compliance management in relation to the following functions in an enterprise:
- (i) Compliance dashboard. (2 marks)
- (ii) Policy and procedure management. (2 marks)
- (iii) Internal corporate compliance systems. (2 marks)
- (c) Outline six post governance audit events that a governance auditor might disclose in the governance audit reports. (6 marks)
- (d) Explain four qualities of good governance audit evidence. (4 marks)
- (Total: 20 marks)

QUESTION FOUR

- (a) A multinational company is planning a merger with a local company and a cultural due diligence report is required by the multinational company's board before a merger decision can be made.
- In relation to cultural aspects, examine the scope of due diligence which should be analysed. (10 marks)

- (b) The quality of board decision making is dependent on the quality of management information.

Describe the areas of management information which should be audited in order to ensure the robustness and completeness of the information presented to the board.

(10 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) The exercise of due diligence is not based on defined data but on the application of mind to a transaction.

Highlight the scope of due diligence in business transactions.

(5 marks)

- (b) Discuss four recent developments in advocating for good governance in your country.

(4 marks)

- (c) Summarise six challenges facing governance reforms in your country.

(6 marks)

- (d) You have just concluded the governance audit for Beta Company Limited. As the governance auditor you are required to issue a compliance certificate to the management of Beta Company Limited.

Prepare a certificate of compliance to be issued to the management of Beta Company Limited.

(5 marks)

(Total: 20 marks)

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CS PART III SECTION 6

GOVERNANCE AND SECRETARIAL AUDIT

FRIDAY: 27 May 2016.

Time Allowed: 3 hours.

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

QUESTION ONE

- (a) Explain the role of the corporation secretary in relation to governance. (6 marks)
- (b) Discuss six significant governance deficiencies that might be identified in a governance audit. (10 marks)
- (c) Explain the importance of a governance audit engagement letter. (4 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Explain the measures that the board should ensure are put in place in order to manage risks in the organisation. (10 marks)
- (b) Analyse five elements of fraud in relation to governance. (10 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Explain five types of disclosure that a company should make when carrying out a governance audit. (10 marks)
- (b) Discuss the role of a central depository agent in relation to an investor. (3 marks)
- (c) Summarise the records that should be maintained by a depository agent. (4 marks)
- (d) Explain the main objectives of carrying out a forensic audit. (3 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Discuss the importance of a secretarial audit to an organisation. (5 marks)
- (b) Describe five stakeholders of a company stating how the stakeholders could benefit from a secretarial audit. (10 marks)
- (c) Analyse the areas that a secretarial auditor should focus on to ensure compliance. (5 marks)

(Total: 20 marks)

QUESTION FIVE

Discuss the functions of a company secretary in relation to professional practice. (20 marks)

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CS PART III SECTION 6

GOVERNANCE AND SECRETARIAL AUDIT

PILOT PAPER

September 2015.

Time Allowed: 3 hours.

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

QUESTION ONE

Pidit Commercial Bank Limited is a company incorporated in Kenya and operates in five other countries which include Rwanda, Uganda, Tanzania, Cameroon and Burundi. The company is currently cross listed in various securities exchanges in the countries where it operates.

Assuming that you are a partner at Craton and Associates Company Secretaries and the board of directors of Pidit Commercial Bank Limited has engaged your firm to conduct a secretarial audit:

- (a) Write a secretarial audit report which should include the following:
- Basis of the secretarial audit.
 - Scope of work.
 - Methodology.
 - Management responsibility.
 - Auditors' responsibility.
 - Opinion. (12 marks)
- (b) Describe eight annexures to the secretarial audit report. (8 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Distinguish between "governance audit" and "board evaluation". (4 marks)
- (b) As the company secretary of Ibis Limited, justify to your board of directors the need for a board evaluation. (10 marks)
- (c) Describe six items which should be verified while carrying out a board evaluation. (6 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Assuming that you have conducted a governance audit for a state corporation in the education sector, draft a governance audit report to be presented to the board of directors. (10 marks)
- (b) Discuss five merits and five demerits of conducting a governance audit. (10 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Show how the work of the following would assist a governance expert in conducting a governance audit for a listed company:
- (i) In house company secretary. (2 marks)
 - (ii) Internal auditors. (2 marks)
 - (iii) External auditor. (2 marks)
 - (iv) Audit and risk committee. (2 marks)
 - (v) Regulatory bodies. (2 marks)
- (b) Prepare a checklist that a secretarial auditor would use while conducting a secretarial audit. (10 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Describe five corporate laws that a secretarial auditor must be conversant with to enable him carry out an effective secretarial audit. (10 marks)
 - (b) Analyse five requirements a company secretary in practice is expected to have in order to prepare an effective secretarial report. (10 marks)
- (Total: 20 marks)**
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