

**BOTSWANA COLLEGE OF DISTANCE AND OPEN LEARNING**

**In collaboration with**

**ZIMBABWE OPEN UNIVERSITY**

**BACHELOR OF COMMERCE**

**HUMAN RESOURCE MANAGEMENT & INDUSTRIAL RELATION**

**CORPORATE GOVERNANCE**

**CG-101**

**SESSIONAL EXAMINATION**

**Marks – 100**

**TIME ALLOWED: 3 HOURS**

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**Instructions to candidates:**

1. The examination consists of four sections: A, B, C and D
2. Answer all questions from section A, B and C
3. Choose any two questions from section D.
4. Begin each answer to a new question on a new page.
5. Write legibly in grammatical English.
6. Use examples where possible to support your explanations.
7. Write answers in the answer booklet provided.



SECTION A

[25 MARKS]

Choose one alternative that best completes the statement or answers the question.

1. Organization's social responsibility is influenced by all of the following, except \_\_\_\_\_.
  - A. Employees
  - B. Competitors
  - C. Tax Authorities
  - D. Government
  
2. Which of the following is not likely be done by board of directors?
  - A. Review and approve policies
  - B. Hire and fire senior management.
  - C. Hire and fire all employees.
  - D. Review and approve organization's strategic plan
  
3. The elements of a public limited company external environment does not include \_\_\_\_\_.
  - A. Customers.
  - B. Employees.
  - C. Suppliers.
  - D. Shareholders.
  
4. The fact that there are women on executive committees and boards and that women have proved their capacities to govern, the following can be concluded \_\_\_\_\_.
  - A. Women executives require more close supervision compared to their male counterparts.
  - B. There are fewer women in influential positions of power than might be expected.
  - C. There are more women in influential positions of power than might be expected.
  - D. Society should not be concerned with level of representation of women in executive positions.

5. Which of the following is most correct concerning the parties that may be involved in insider trading.?
- A. Customers, suppliers and management.
  - B. Management, employees and creditors.
  - C. Management, board of directors and employees.
  - D. Board of directors, suppliers and banks.
6. Expectations of different stakeholders result in conflict of expectations. Such conflicts include \_\_\_\_\_.
- A. Cost- efficiency and jobs. ✓
  - B. Growth and profitability. ✓
  - C. Growth and control independence. ✓
  - D. All of the above.
7. Which of the following organisations plays crucial role in enhancing corporate governance in Botswana?
- A. Bank of Botswana (BoB).
  - B. Directorate on Corruption and Economic Crimes (DCEC).
  - C. Botswana Stock Exchange.
  - D. All of the above.
8. Value-for-money audit involves identifying and measuring each of the following aspects of performance, except \_\_\_\_\_.
- A. Number of suppliers.
  - B. Money expended.
  - C. Inputs purchases.
  - D. Outcomes achieved.



9. The agency problem is \_\_\_\_\_.
- A. More common in public limited companies than in sole proprietorship.
  - B. Solved by appointing competent managers.
  - C. A way of enhanced corporate governance.
  - D. Solved by appointing a board member to be the CEO.
10. Which of the following does not constitute a social responsibility activity?
- A. Creating jobs for minority groups such as disabled and marginalized communities.
  - B. Avoiding or reduction in environmental pollution.
  - C. Merging of the organisation with another to achieve growth.
  - D. Financial support to sporting activities within the country.
11. When developing the mission of the organisation, the following should be considered, except \_\_\_\_\_.
- A. The resources available to the organisation.
  - B. The unemployment rate in the country
  - C. The wishes of the stakeholders and general history of the organisation.
  - D. The economic growth (GDP) trend in the country.
12. The main reason of existence of a public corporation (parastatal ) is \_\_\_\_\_.
- A. Create employment especially given high unemployment rates among graduates.
  - B. Compete with private sector to achieve government's objective in the economy.
  - C. Provide goods and services in areas where high capital investment is required or unattractive to private companies.
  - D. Provide opportunities for governments to generate income to support the national budget.

13. Some of the organisational activities which are part of rituals does not include \_\_\_\_.
- A. Interview panels.
  - B. Assessment procedures.
  - C. Power structures.
  - D. Promotion processes.
14. Stakeholders of a corporate organisation exclude \_\_\_\_\_.
- A. Employees.
  - B. Competitors.
  - C. Suppliers.
  - D. Trade unions.
15. Which of the following is not correct regarding effective corporate governance?
- A. Increases salary and other benefits to employees.
  - B. Enhances transparency and accountability.
  - C. Improves the reliability and quality of public financial information.
  - D. Minimizes opportunities for fraud within the organisation.
16. Management audit may be used in determining the extent to which management is complying with management policies. Such management policies exclude \_\_\_\_.
- A. The company financial performance in comparison to competitors.
  - B. The systems for approval.
  - C. The company's corporate code of conduct.
  - D. The company's recruitment criterion.
17. Which of the following is not an audit risk facing an auditor ?
- A. Inherent risk
  - B. Control risk
  - C. Detection risk
  - D. Esteem risk

18. Which corporate governance report focuses specifically on financial aspect of corporate governance?

- A. Cardbury report
- B. Kidikilwe Report
- C. Masitara report
- D. Greenbury

19. Strategies are formulated at \_\_\_\_\_ level while missions are formulated at \_\_\_\_\_ level.

- A. Corporate, nationwide.
- B. Corporate, SBU.
- C. SBU, nationwide.
- D. SBU, corporate.

20. The cultural web of an organisation includes \_\_\_\_\_.

- A. Power structures.
- B. Ritual and routines.
- C. Control systems.
- D. All the above.

21. A board committee with the responsibility of whistle blowing is \_\_\_\_\_.

- A. Remuneration committee.
- B. Nominating committee.
- C. Audit committee.
- D. None of the above.

22. Possession of power in an organisation enables the individual, to some extent; to persuade, induce or coerce others. Which of the following is not a source of such power?
- A. Informal power through an individual's charisma.
  - B. An individual's hierarchical position.
  - ✓ C. The reputation of the university attended by the individual.
  - D. Control of the operational environment \_\_\_\_\_.
23. The following is not part of internal controls
- ✓ A. Appointment of respected external auditors.
  - B. Clear organisational organograms.
  - C. Separation of responsibilities.
  - D. Clear policy and procedures.
24. Which of the following statements is least correct?
- A. Appointment of middle management is done by Chief Executive Officer (CEO) together with other senior executives.
  - ✓ B. Public corporations are bound by rules and regulations set by Botswana Stock Exchange.
  - ✓ C. Statutory Bodies and State Enterprises Committee, chaired by Mr. Masitara has oversight role on large corporations such as BTC, Barclays, MVA and NDB.
  - D. To be more effective board of directors discharges its duties through committees.
25. Which of the following participants play a crucial role in determining future developments in the organisations?
- A. The shareholders
  - B. The board. ✓
  - C. The competitors.
  - D. The suppliers.

**SECTION B:**

**[10 Marks]**

**State whether each of the following statement is True or False**

1. According to Cadbury proposal, the board should meet when a meeting is called by executive management. **F**
2. A key recommendation of Greenbury report is that remuneration committee should consist of entirely non-executive directors. **F**
3. An organisation with effective and efficient internal auditors does not require external auditors. **F**
4. Corporate governance is more implicit than explicit. **T**
5. The boards of Directors in privately owned enterprises are more effective than their counterparts in publicly owned corporations. (parastatals). **F**
6. The cadbury report adopted many proposals on non-executive directors contained in the Greenbury report. **T**
7. To enhance independence of the internal auditor, he/she should not be allowed to control the resources of the internal audit department. **F**
8. Management audit is also referred to as operational audit. **T**
9. The political and cultural context of an organisation should be analysed and understood as part of strategic analysis. **T**
10. Unlike publicly owned enterprises, private companies are not obliged by law to publish their annual financial statements. **T**

**SECTION C**

**[15 Marks]**

1. Most commercial banks in Botswana have an internal audit department. Briefly explain **three** ways in which a commercial bank can interfere with independence of an internal auditor.

**(6 Marks)**

2. In recent years, there has been enormous growth of private academic institutions in Botswana. Identify and justify **three** important stakeholders to a private institution of your choice.

**(6 Marks)**

3. State four social responsibilities of an organisation of your choice. **(3 marks)**

**SECTION D**

**[50 Marks]**

**Answer any two questions from this section**

**QUESTION 1**

**[25 marks]**

The mission statement of an organization is fundamental to success of the organization. The mission statement incorporates not just an identification of the products and services the organisation offers, but also sets the philosophy and culture behind the basic organizational functions.

- a) Briefly explain **four** important considerations that should be considered when developing an organisation's mission statement. **(10 Marks)**
- b) Discuss issues that should be addressed by the mission statement. **(15 marks)**

**QUESTION 2**

**[25 marks]**

**Read the article below and answer the questions that follow.**

**No more Board seats for Permanent Secretaries?**

Former parastatal CEOs and directors should not be appointed to Cabinet - Robert Masitara.

The Member of Parliament for Gaborone West North, who is also the chairperson of the Statutory Bodies and State Enterprises Committee, Robert Masitara, has vowed to fight maladministration in parastatals.

In an exclusive interview with *The Gazette*, Masitara was uncompromising on corporate governance; Permanent Secretaries should not sit on parastatals boards, he said. "PSs must be in a position review the reports from Chief Executive Officers (CEO); they should not be part of the system. We believe this is improper as it interferes with the objectivity of the Board," he said.

Cabinet Ministers must not interfere with the running of the oversight process between boards and management. "There must be less interference, otherwise they will render

the boards inactive if they override the boards' decisions," he observed. MPs who have served as board members and CEOs of parastatals must not be appointed to Cabinet, to promote good corporate governance, "as much as I would not expect a CEO to be elevated to be board chairperson; it is a clear conflict of interest case," he pointed out.

And board members must not serve in different boards as this will make them unproductive; even their competence and qualifications must be scrutinized, he suggested. However Masitara believes that boards' remuneration must be improved in the interests of productivity; his argument is premised on the belief that board members are directors of their own companies and if not paid better, they may not take their jobs seriously.

The MP said in his committee's next examination, which starts this week, they will summon external auditors to justify their findings. He cited the example of the Motor Vehicle Accident Fund (MVA), where the Committee realized that the auditors had classified staff loans amounting to P 11 935 262.00 under current assets, when in fact they were repayable within 20 years. Current assets are either cash or assets, Masitara observed, held for trading within the next 12 months.

"This is a serious omission. Investors place reliance on financial statements. We will have to scrutinize the level and composition of the teams that the external auditors send to these parastatals," he charged. On parastatals executives' pay Masitara said the government must come up with a proper remuneration policy. "Given that the salaries of CEOs are packed the same as those of PSs, abuse can arise if allowances are not regulated. I am not saying the salaries should be cut; rather review would also look at the profile of the organization and its returns. The policy will outline the limits of the allowances.

Masitara also advocates for a whistle blowing law that will protect people who give information in good faith. On CEOs who refuse to divulge information to the committee, Masitara said no CEO will ever tell them that he cannot divulge information for security reasons. "The onus is on us to determine if the information is of a security

nature or not," he says.

He said MPs must take oath of secrecy before examining parastatals' books so that they do not divulge information to the public and media. Since their mandate has been expanded to cover bodies they did not examine in their last report, for now they will not make their examination in public, to be fair to the new bodies, he said.

- a) There are crucial corporate governance issues that are being raised in the article. Identify and explain **Five** such issues. **(5 Marks)**
- b) From the article, it can be concluded that Board of Directors in privately owned enterprises are more effective than their counterparts in publicly owned corporations.  
To what extent is this a correct statement? With reference to the article, explain factors that may compromise effectiveness of Board of Directors in publicly owned institutions. **(10 Marks)**
- c) Mr. Masitara advocates for whistle blowing law. Identify **Five** parties that such law may protect. **(5 Marks)**
- d) The case of Motor Vehicle Accident (MVA) cited above, may be an example of malfunctioning Board audit committee. What are the functions of a board audit committee? **(5 marks)**

**QUESTION 3**

**[25 marks]**

**Read the article below and answer the questions that follow**

Bad corporate governance including corruption, mismanagement, non-accountability and unethical practices are a source for concern at Botswana's state and private corporations. Corporate governance encompasses the establishment and perpetual scrutiny of a system of checks and balances to ensure a balanced exercise of power within a corporation. It also includes implementation of a mechanism to ensure compliance by the company with its legal regulatory requirements. Most importantly is about transparency and accountability to company's key stakeholders, namely; management, employees, the board, shareholders, and the public.

Parastatals are creations of statute(s). They are owned by the state on behalf of Botswana. Their transparency, accountability, ethical conduct and good management, therefore, are of paramount importance. As far back as 1980s and 1990s, corporate governance has been an issue in public enterprises.

The National Development Bank's near bankruptcy in the past is a case in point. Botswana Housing Corporation scandal in which a minister was charged with corruption is another good example. Botswana Telecommunications Corporation has also made headlines in the past on bad corporate governance. In the early 2000s, the University of Botswana was probed after a motion in Parliament alleging bad corporate governance. Botswana Railways has also made headlines in the past on bad corporate governance. An audit was conducted at Debswana a few years ago and revealed bad corporate governance at the partly state owned mining company. Consequently former managing director and other senior officials in the company were slapped with graft charges by the DPP and the corruption-busting bureau, DCEC. The matter is sub judice.

Public Procurement and Assets Disposal Board (PPADB) has also been probed by the DCEC; its former chairman was charged with conflict of interest, although he was later acquitted by the High Court. Dubious or chicanery dealings have also been reported after an audit at Botswana Export Development and Investment Authority (BEDIA) leading to the resignation or expulsion of a CEO. The Minister of Finance and Development Planning and former head of the state's leading investment arm, Botswana Development Corporation (BDC) is facing corruption charges relating to conflict of interest while he was still at the corporation. Most recently in the headlines

are revelations by an audit of wrongdoing by top management at BDC.

The private sector is not immune from bad corporate governance either. Other corporate governance concerns on various issues have been raised at Botswana Insurance Holdings Limited (BIHL), Botswana Insurance Fund Management (Bifm), BCL Mining Company and Tati Nickel Mining Company. Lob-trans and African Express have collapsed as a result of bad corporate governance. Bokamoso Private Hospital was also placed under judicial curatorship for similar reasons.

The aforementioned examples reveal mammoth challenges we face as a nation on this issue. Parastatals play a pivotal role in Botswana's economy especially that the private sector is miniscule. While the recently created parliamentary committee on parastatals is a welcome development, it will always be difficult to ensure good corporate governance without strong oversight institutions. The DCEC, the Ombudsman's office, the Auditor General and Parliament powers are circumscribed to ensure good governance of both state and non-state institutions. Botswana needs strong institutions and all encompassing laws and policies on corruption and economic crime-fiscal and revenue crimes, competition, declaration of assets, interest and liabilities, insider trading, targeted lifestyle audits, whistle-blowing and financial intelligence.

- a). Define corporate governance. **(4 marks)**
- b) Distinguish between graft and corruption? **(4 marks)**
- c.) The case of Bokamoso Private Hospital's crumbling can best be summarised as a good example of the agency problem. Do you agree? Justify your answer. **(5 marks)**
- d.) Define the following clearly and state how they can be used to deal with corruption in Botswana.
  - (i) Targeted lifestyle audits. **(4marks)**
  - ii) Declaration of assets. **(4marks)**
- e) What oversight roles does the Ombudsman's office play in ensuring that there is good corporate governance from service providers? **(4 marks)**

**END OF PAPER**