PAN AFRICA CHRISTIAN UNIVERSITY

BACHELORS OF COMMERCE

END OF TERM EXAMINATION

DEPARTMENT: BUSINESS

COURSE CODE: BCM306

COURSE TITLE: CORPORATE GOVERNANCE

ROYSAMBU CAMPUS - DAY

EXAM DATE: TUESDAY

TIME: 2.00PM – 5.00PM

INSTRUCTIONS

- This examination script consists of **six (6)** questions.
- Answer question ONE and ANY other three Questions.
- Show all your workings
- Read all questions carefully before attempting.
- Write your **student number** on the answer booklet provided.

QUESTION ONE

a) Describe any two benefits of corporate governance (2Marks)
b) Explain why the position of the chairman and that of the Chief Executive officer should not be held by the same person (4marks)
c) Using relevant examples, discuss the roles of institutional investors in a company (4Marks)

Use the case below to answer ANY three questions

A CASE OF Y MILLERS LTD IN KENYA

Poor governance, heavy borrowing and investments in projects that never give returns are some of the causes of trouble at the ailing Y Millers Ltd. A report by a task force on the revival of the giant miller also blames the high cost of production and a poor farming model. It further points at malpractices by staff at the miller that resulted in loss of millions as another cause of the financial turmoil the once premier miller is facing. They include double procurement, single sourcing, overstating of books of account, inflated commercial activities, printing of books and fliers with renowned fraudulent companies compounded by poor record keeping.

"The Y Millers Ltd Board, management staff, and suppliers have over time engaged in unprofessional malpractices that contributed immensely to the current state of the company. The commercial department diverted ethanol meant to be sold in Tanzania and also the imported molasses tankers never arrived at company," reads the report unveiled on Wednesday. The report says the agriculture department fraudulently acquired satellite fields, some which did not exist, paid ghost farmers in collaborations with the Information Technology staff, and overstated acreage firm inputs in collusion with the survey section, diverted firm inputs meant for the nucleus and farmers. The staff diverted produce and colluded with firms that distributed it to defraud the company. They inflated prices, offered produce discounts beyond acceptable limits and participated in the purported produce export of 2006–2012, the report says. The report says that the company's financial status started dwindling in 2013 largely due to mega projects that the company engaged in and whose return on investments has never been realized. This took away the much needed cash to pay cane farmers for their deliveries, leading to delays in payment that demoralized them and they started uprooting the crop from their farms.

Farmers received debit payments because of the collusion by staff to pay ghost farmers instead of real farmers. The report says that company staff started projects they could not complete. These include CCTV, IDMS, Ethanol, bagging machine, HT clocking system, recruited staff procedurally, failed to control board of directors expenditure and colluded with board members to open an account in Dubai that was used to deposit customer funds. Company chairman agrees with the findings, saying it unearthed what the management had already noted and handed the matter to relevant state authorities for action. “We’re working together and complementing each other to revive the company because Y Millers Ltd is bigger than the board or management or even the county government,” he said. The company is technically insolvent as per the audited accounts for 2017/2018 financial year which puts the current liabilities stand Sh30 billion, while assets base of the company stand at Sh15 billion. Though the taskforce did not release names of those behind the plunder of the company, taskforce chairman revealed they had identified 15 names of individuals who should be investigated further by the Ethics and Anti-Corruption Commission. The Y Millers Ltd report that was expected to lay bare the looting of the miller has thrice failed to be adopted by in Parliament.

The report says the poor governance by the management resulted in losses that triggered delayed or nonpayment for produce deliveries by farmers leading to them quitting its farming. The report identifies repealing of the produce Act 2001 with the enactment of the Crops Act 2013 that left the produce sector without regulations to guide it, leading to confusion in the sector in general as a major gap in the performance of the produce sector. The regulation of the produce importation and tax waivers has continuously rattled the produce industry in Kenya and contributed to the flooding of the local market with imported produce, the report says. The report also points at use of obsolete technology as a major cause of under-performance of public produce millers. The report also identified awarding of huge sums of money to suppliers and staff by courts as part of the reasons for its financial instability. The report recommends a raft of interventions to turn around the once vibrant miller. They include involvement by the county government in the development of the produce, negotiation with national treasury to surrender its 20 percent shareholding in the company to the county government to give it a foothold in decision making.

QUESTION TWO

a) Identify any three roles of the board members in any corporate entity (3Marks)
b) Citing evidence from Y Millers Ltd, explain how the board failed in each of its roles (7Marks)

QUESTION THREE

a) Citing evidence from Y Millers Ltd, describe how the agency theory has been violated by the management (6 Marks)
c) Discuss any two measures the shareholders of the company should have taken against the management and the board (4marks)

QUESTION FOUR

a) Identify any two board committees in any corporate entity (2Marks)
b) Citing evidence from Y Millers Ltd, explain how each committee may have failed in its role (8Marks)

QUESTION FIVE

a) Citing evidence from the case, evaluate the competence of the board in Y Millers Ltd (6Marks)
b) Explain why it is not advisable for the Chief Executive Officer to actively participate in the nominating committee (4 Marks)

QUESTION SIX

a) Discuss how the stakeholders theory has been violated in regard to Y Millers Ltd (4Marks)
a) Discuss any four basic internal control structures that should be recommended to Y Millers Ltd (6Marks)