

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## CPA(U) EXAMINATIONS

### LEVEL TWO

#### PROFESSIONAL ETHICS & VALUES – PAPER 9

**WEDNESDAY, 15 JUNE 2011**

#### INSTRUCTIONS TO CANDIDATES:

1. Time allowed: **3 hours 15 minutes**.  
The first 15 minutes of this examination have been designated for reading time. You may not start to write your answer during this time.
2. Attempt **all** questions in Section **A**, any **two** questions from Section **B** and any **two** questions from Section **C**.
3. Section **A** has one compulsory case study question carrying 30 marks.
4. Section **B** has **three** questions and only **two** are to be attempted. Each question carries 20 marks.
5. Section **C** has **three** questions and only **two** are to be attempted. Each question carries 15 marks.
6. Please, read further instructions on the answer, before you attempt any questions.

## SECTION A

### Question 1

Rona Company Ltd was incorporated in Uganda in August 2000, with the main objective of exporting maize to neighbouring countries. The maize is grown in Masindi District in western Uganda, and is then transported to Kyambogo, Kampala where it is processed for export. Ms. Rosemary Nampijja, the majority shareholder of the company with 60% of the shareholding, is the chairperson of the board of directors of the company.

The vision of the company is to be a leading exporter of maize. Recently, during an annual retreat, the board discussed, among other things, the appointment of two non-executive directors, and auditors; their independence and integrity. The board also emphasised professional ethics for the next auditors to be appointed and requested Mr. Moses Kabiito, the chief executive officer (CEO) of the company to make a presentation on corporate governance issues.

#### **Presentation by the CEO (in summary).**

‘Corporate governance is defined as a system by which organisations are directed and controlled. Several theories have explained corporate governance; this includes the agency theory which provides for the protection of the principal-agent relationship. In this theory, the agent is the manager or CEO, while the principal is the shareholder or investor of the company; and therefore their relationship is vital for the company’s progress. It also calls for accountability and reporting to stakeholders. The shareholders have several rights, including proxy voting.

Corporate governance also looks at other issues like the ethics and welfare of staff, and corporate social responsibility. Today’s organisations practice more corporate social responsibility than ever before; they paint zebra crossings, build homes for the needy, plant trees to protect and preserve the environment, and fundraise for the needy.

Corporate governance examines how an organisation behaves in relation to its environment, and how it treats its stakeholders. Companies have a responsibility to the general public and are, therefore, expected to give back to the community; in fact in some countries such corporate social responsibility is rewarded, by the provision of incentives by governments.

In the factory, we ensure our employees are protected in terms of health and safety. We provide medical insurance for all our employees. We have trained our staff in the export business. They are highly motivated and because of them we have a large market share compared to our competitors.

Management has developed and implemented policies and guidelines to recruit and retain people of high skill and integrity. We have an oath of secrecy that is signed by every employee; this is to ensure that company's secrets are not revealed to third parties without the consent/approval of senior management.'

**Required:**

- (a) Outline the purposes and objectives of corporate governance in an export business.  
(8 marks)
  - (b) (i) Account for the existence of non-executive directors on boards of directors.  
(ii) Discuss situations where the independence of non-executive directors may be impaired.  
(14 marks)
  - (c) Evaluate the difference between the roles of the chairman of the board of directors and the chief executive officer (CEO) of the company?  
(4 marks)
  - (d) Explain the term 'proxy voting'.  
(1 mark)
  - (e) Discuss the governance issues raised by the CEO.  
(3 marks)
- (Total 30 marks)**

**SECTION B**

**Question 2**

Mr. Smart was the finance director of Dealer Limited until 2009 when he was fired from his job because of insider trading. He is still looking for a job because, so far, no company is willing to employ him.

**Required:**

- (a) Discuss the term 'insider trading' and its effects?  
(8 marks)
  - (b) Discuss the underlying fundamental ethical principles under the code of ethics that guide professional accountants in Uganda in their professional conduct.  
(12 marks)
- (Total 20 marks)**

**Question 3**

- (a) Discuss the concept of sustainability and its three perspectives. **(10 marks)**
- (b) In order to manage risk, organisations have embedded risk in their systems and culture.

**Required:**

Discuss ways of and the factors affecting the embedding of risk in a company's culture.

**(10 marks)**  
**(Total 20 marks)**

**Question 4**

- (a) Auditors must not only be but should also be seen to be independent; they must be independent in mind and appearance. Their independence can be influenced by a number of threats and this means that their opinion could be doubted.

**Required:**

With examples, discuss the type and the occurrence of the threats which affect auditors' independence.

**(15 marks)**

- (b) Company information is a very vital resource; it should be managed properly, maintained and safeguarded from loss or destruction.

**Required:**

Recommend ways on how information can be protected in an organisation.

**(5 marks)**  
**(Total 20 marks)**

## SECTION C

### Question 5

- (a) “Internal controls are said to be the processes, systems, policies and procedures which firms have put in place to act as guidance for staff while performing their duties so as to achieve the objectives of the firm”.

**Required:**

With examples, discuss any **five** different forms of internal controls that firms in Uganda have adopted.

**(5 marks)**

- (b) Assess the elements of an internal control system.

**(10 marks)**

**(Total 15 marks)**

### Question 6

Corporate ethics looks at the application of ethical values to business behaviour. Today some companies provide details of their ethical approach in a corporate social responsibility (CSR) reports.

**Required:**

Discuss the key areas for corporate ethics which should be included in a CSR report.

**(15 marks)**

### Question 7

‘Accountancy is a profession involved with accountability. So, accountants have a public interest role to play. The profession is dynamic which means some accountants are more comfortable with the existing structures than applying new ones.’

**Required:**

- (a) Explain the term ‘public interest’.
- (3 marks)**
- (b) Discuss the reasons why some accountants enjoy the status quo and why others are involved in new initiatives.

**(12 marks)**

**(Total 15 marks)**