NOVEMBER 2018 PROFESSIONAL EXAMINATIONS
CORPORATE STRATEGY, ETHICS & GOVERNANCE (PAPER 2.6)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME

EXAMINER'S GENERAL COMMENTS

In my sincere opinion, it was expected that the pass rate of this paper would be well over 50 percent, considering the straightforwardness of the questions contained in the paper, in addition to the fact that all questions were within the syllabus requirement of this application level of the Institute's examination. However, to my utmost surprise, this wasn't the case. Even though, the performance is the best since the inception of this syllabus, it appeared to me that quite a large number of the candidates did not prepare adequately for the examination. In fact, it behooves on students at this level to exhibit clear understanding of the fundamental principles underpinning Corporate Strategy, Ethics and Governance, considering the fact that students should have been exposed to majority of the issues contained therein from other courses.

Candidates who do not fully grasp the contents in the other subject areas, in addition to failure to adequately prepare, would encounter obvious problems in securing a pass in this paper 2.6. This could be a reason why the pass rate in the CSEG paper has not been very encouraging over the years. Notwithstanding, this particular examination saw the best performance.

STANDARD OF THE PAPER

Overall, the standard of the paper was high and reflected the exact contents of the syllabus. Further, it could be described as comparable to the papers previously administered by the Institute. Notwithstanding, the demands of the case study questions was slightly below the standard of those administered in previous examinations. The questions in relation to the case study did not absolutely reflect the depth of information contained in the case study. For example, there could have been questions demanding the use of the Poter's Five Competitive Forces framework, since the case study contained in-depth information in relation to it. The mark allocations reflected the weightings in the syllabus. However, a major weakness of the paper was that questions relating to corporate strategy (i.e. strategic management aspect) concentrated on only formulation and implementation phases with no question bothering on strategy evaluation and control phase.

In my candid opinion, none of the questions could be considered as too loaded for candidates to handle. However, I found that some of the marks allocated to some questions were 'over-generous', considering the demands of the questions. For example, question one (1d and 1e) put together should not be more than ten (10) marks in my estimation.

The marks allocated to these questions, put together, was (14), which I consider to be too much, especially also considering the fact that the demand of both questions was somewhat similar. It was, however, quite disturbing that the number of candidates that could answer both questions correctly could be less than 50 percent. In my estimation, both questions were so basic and any candidate writing this paper should have easily scored more than half of the total (14) marks allocated.

There were no ambiguities/errors/typing problems that adversely affected performance in the examinations. Overall, all the six (6) questions administered were of high standard at the level of examination.

PERFORMANCE OF CANDIDATES

The general performance of candidates in the subject is 49.55%. Out of a total number of 1,766 of candidates who took part in the paper, 875 passed while 891 failed to make the past mark of 50 percent. The performance, therefore, is only slightly below average. However, it should be admitted that this performance should probably be the best since the inception of this syllabus. Notwithstanding, this performance could have even been better but for the failure of many students who poorly performed on questions four (4) and six (6).

Both instructors and students should endeavor to intensify teaching and learning in order to perform better in subsequent examinations. Specifically, they should delve deeper into some of the concepts contained in the syllabus by reading further from other references as provided in the list of references, and not solely depend on the manual provided by the Institute. The sole dependence on the Institute's manual on CSEG could have been the reason why candidates who answered question four (4) performed very poorly. The answers to question four (4a) are not contained in the Institute's CSEG manual. Thus, almost all candidates who answered that question failed woefully. Interestingly, this is a revelation that many instructors do not go beyond the contents in the CSEG manual while most candidates only engage merely in cramming the contents and not studying to understand the issues within the syllabus.

Students should be encouraged to prepare adequately before confronting the paper in order to boost their confidence to pass. Specifically, candidates writing this paper should be encouraged to first successfully write preceding papers (Paper 2.1 to 2.5) or at least write alongside, since this should increase their understanding and preparedness for the Paper
2.6. This suggestion is against the backdrop that the CSEG paper is a capstone subject, which integrates almost all of the subjects in the professional programme.

NOTABLE STRENGTHS AND WEAKNESS OF CANDIDATES

Generally, candidates performed strongly in questions bothering on the fundamental ethical principles of the accountant as well as those on corporate social responsibility (Question 2 to be precise). Additionally, majority of candidates performed creditably well on question bothering on internal audit, audit committees and internal controls (Question 3 to be precise). Generally, question 5, which bothered on the human resource function of corporate governance principles, was also very well tackled by candidates. It is, however, very difficult to put a precise figure (percentage) regarding the pass rates in these questions. Overall, candidates performed very well in majority of the questions administered with a few surprises though. The strengths were wide spread amongst candidates. The outstanding performance in these areas could be attributed to the consistency in examining candidates in these areas over an extensive examination period, coupled with the fact that instruction and learning of those topics were intensified and appreciated by students.

The notable weaknesses were found in the case study (question 1) and question four (4) – the balanced scorecard. It is quite disturbing that many candidates still struggle with quantitative aspects of the case study. In this particular instance, many of the candidates failed to produce a simple cash budget (Question 1c). Also, it was disturbing that many candidates couldn't satisfactorily answer a basic question that bothered on the strategic management process (Question 1b). What was more shocking was the fact that many candidates still struggled to correctly identify what constitutes the strengths, weaknesses, opportunities and threats of the organisation in the case study (Question 1a). Going forward, instructors should be advised to intensify teaching bothering on the Environment of business and engage students more in solving lots of case study/scenario-based questions. Students should also be encouraged to read, listen to, and watch general news and more specifically business news in order to appreciate the environment of business and be able to effectively answer case study questions. Kindly refer under the section on 'Performance of candidates' regarding my comments on candidates' poor performance on question four (4) – bothering on the balanced scorecard.

The reason for the weaknesses in the case study could be attributed to lack of qualified professionals to teach the subject to students coupled with failure on the part of students to pay particular attention to the business environment. It must be noted that CSEG is a technical subject that encompasses many areas of business and thus, should not be taken casually by both instructors and students. There is the need to ensure that instructors who teach the course are highly qualified and technical persons. In addition to the Institute's manual on CSEG, both instructors and students should endeavor to read other references to broaden their understanding of the issues in the syllabus. These, when adhered to, should enhance the proper understanding of students to confront the paper in future examinations.

Other Weaknesses Include;

- Some candidates still do not write answered question numbers at the appropriate columns provided for that purpose.
- Most candidates do not number the pages in the answer packets even though spaces for that have been provided in the answer packets.
- Some candidates still refused to write the answered questions in the spaces provided in the answer packets. Some candidates also mix up question numbers with respect to the questions answered.
  - Some candidates also answer more questions than they are required to write.
- The grammatical expression of some candidates is still very worrying.
- Some candidates have very poor handwriting that makes marking extremely difficult.

QUESTION ONE

GHANA'S FOOTWEAR MANUFACTURING INDUSTRY

Introduction

The footwear industry has many players including artisanal shoemakers, local and foreign manufacturers, with local representatives, producing a wide range of footwears. In Ghana, the footwear industry is making headway in the local market, with most of the shoes being produced in Kumasi. The Kumasi Shoe Manufacturing Company focuses on making footwear for almost all the security agencies in Ghana, as well as some private security companies. The local market is also filled with individual artisans and small startup companies who make footwear for sale in the country. The other regions in the country such as the Greater Accra Region and the Northern Region also have a few individuals who are into footwear manufacturing but on a smaller scale.

Foreign produced footwears are of superior quality and attract skimming pricing compared to the locally produced ones. The sector is projected to have high growth potential with most of its forecasted sales to emanate from low income segment with marginal and flat growth from middle and high-income segments respectively. The growth, among other things, will be fueled by the government's free school uniform and sandals policy which is expected to be sourced from local manufacturers. In Ghana, luxury shoes are usually European or Amercian brands. The luxury footwear production in Ghana is still a virgin market with a lot of potential once people start to believe in the high quality these Ghanaian brands can offer.

On the average, it takes three to five years for local manufacturers to ramp up production significant enough to drive down average fixed cost and attain utilization of full capacity due to intense competition and difficulty accessing the major wholesale and retail outlets trading in footwears. The foreign as well as a good number of local manufacturers sign 5 to 10 years contract with major outlets in all the major urban centres for exclusive rights to sell their footwears.

The artisanal shoemakers generally produce based on customer orders. In the Footwear industry, customers easily source from many available alternatives. The key customers of foreign and local manufacturers are the various wholesale and retail outlets. There are emerging online shops providing information on prices of goods and services from different manufacturers including footwears free of charge and consumers can easily access that information. The profit margins for the outlets are generally low. There have been recent acquisitions of some local footwear manufacturing companies by some major wholesale and retail distributors in Ghana and the experts are predicting more of such transactions.

In Ghana, there is a cartel of few major importers, controlling approximately 90% of high quality natural and synthetic leather market, from whom many local manufacturers and artisanal shoemakers procure their raw materials. These importers source their supplies largely from Europe which compares favourably, in terms of quality and price, to those available in neighbouring countries. A recent consumer survey indicates that footwear produced with inputs from Europe are durable, of good quality and able to stand high temperature conditions locally hence consumers preference.

Footwear Ventures Ltd (FVL)

Footwear Ventures Ltd (FVL) was founded by Peter Legubo, who graduated with bachelor's degree in Fine Arts, from a public university in Ghana. Prior to starting the company, Peter met one of his schoolmates, who owned a business that specialized in traditional handicrafts including footwear. He was able to convince him to join FVL. The schoolmate's hands-on experience coupled with Peter's competence in drawing and designing will be complementary and indispensable to gaining competitive edge. The initial capital for the company was raised from personal savings and severance package received by Peter from his former employment. He was able to acquire requisite tools and machines for the production of footwear.

Based on the determination and ambition of the founder, FVL out doored its first production line with four different products including shoes and sandals for men, women, children as well as boots for security personnel. The products were well received by the public. The company continued production but it could hardly produce the quantity required by its retailers due to inadequate funding. Peter, therefore, approached some banks for credit facility but due to lack of credit history he was unsuccessful. Peter Legubo decided to turn to his friend, Kingsford Yeboah, who lived in Germany and had earlier expressed interest in investing in the business. Kingsford provided the business with substantial amount of cash. The capital injection was used to buy more tools and machines in a bid to significantly automate the production process. Additional hands were engaged bringing the total number of employees to 100. Currently, the company produces on the average 2,200 pair of shoes per month.

The main raw materials for footwears, including natural and synthetic leather, synthetic sole and adhesive, are sourced from local importers. FVL is contemplating diversifying its raw materials. The shoes produced by the company are largely distributed through major retail shops dotted across major urban centres since FVL does not have the required resources to open its own sales outlets. The company also does direct sales to students on campuses of some tertiary institutions in the country.

On strategic approach, Peter believes the company should continue to exclusively rely on engagement of experienced hands from the industry and should waste no time in formalizing and documenting the company's strategy. Kingsford Yeboah also believe that the company should institutionalize a strategic approach that should focus on the strategy process, financial planning and forecasting as well as sources of finances.

Financial planning and forecasting

FVL has the potential of becoming a leading producer of footwear in the Ghanaian market. It is however faced with liquidity challenges. The management of FVL has decided to prepare a six-month budget in order to better manage its liquidity needs and avoid any shortages especially in the light of limited access to bank credit.

Financial data

FVL has planned production and sales for the next nine months as follows:

Month	April	May	June	July	August	September	October	November	December
Production (Units)	700	800	1,000	1,200	1,200	1,400	1,500	1,500	1,500
Sales (Units)	700	800	800	1,000	1,200	1,300	1,400	1,600	1,500

During the period, the business plans to advertise so as to achieve the projected sales. Payments for advertising of GH¢12,000 and GH¢18,000 will be made in June and September respectively. The selling price per unit will be GH¢120 throughout the period. 40% of sales are normally made on two months' credit. The other 60% are settled within the month of the sale.

Raw materials used for the footwear will be held for one month before they are taken into production. Purchases of raw materials will be on one month's credit. The cost of raw materials is GH¢60 per unit of production. Other direct production expenses, including labour, are GH¢25 per unit. These will be paid in the month incurred. Various production overheads, which during the period to 30 May had run at GH¢21,600 a month, are expected to rise to GH¢24,000 each month from 1 June to 30 September. These are expected to rise again from 1 October to GH¢28,800 a month and to remain at that level for the foreseeable future. These overheads include a steady GH¢4,800 each month for depreciation. Overheads are planned to be paid 80% in the month of production and 20 per cent in the following month.

To help meet the planned increased production, a new item of plant will be bought and delivered in July. The cost of this item is GH¢79,200; the contract with the supplier will specify that this will be paid in three equal instalment in August, September and October. Raw materials inventories are planned to be 1,000 units on 1 June. The balance at the bank on the same day is planned to be GH¢89,000. The company earns 5% interest on the closing balance which is paid in the following month.

Required:

a) Analyse the strengths and weakness of FVL. **(6 marks)**

b) Prepare a report to the Director of FVL on the process of strategic management. **(8 marks)**

c) Prepare a cash budget for the six months ending 30 November based on the financial data of FVL. Show all workings. **(12 marks)**

d) Recommend to the Directors of FVL **FOUR (4)** strategies for overcoming the liquidity crisis. **(8 marks)**

e) Advise the directors of FVL **FOUR (4)** methods of raising long term capital. **(6 marks)**

(Total: 40 marks)

QUESTION TWO

a) The IT Director of Uswatu Ltd (Uswatu) has asked you to undertake a cost-benefit analysis of a proposed new IT system. The IT Director will use this analysis to convince the Board of Directors of Uswatu that they should invest in the new system. As part of your analysis, you found that the new system will not run properly on Uswatu's existing computers. This means that Uswatu would have to replace most of their existing Desktop computers and servers, leading to an excess of costs over benefits.

The IT Director has suggested that you downplay the cost of replacing the IT infrastructure as he was sure that he 'could find a work-around' that would allow the existing computers to use the new software, though he was currently uncertain how this would be accomplished.

The IT Director has told you that he 'expects' the cost-benefit analysis to show a favourable result for the new system and has indicated that your future promotion prospects may depend on this.

Required:
Explain the IFAC's ***fundamental ethical principles*** that you would be breaching if you agree to do the IT Director's request. **(10 marks)**

b) Sampa Ltd is a large local fast moving consumer goods company with many well-known branded products. It imports raw materials for its products from several countries, and all its manufacturing operations are based in Ghana. The financial performance of the company has been declining due to an economic downturn.

The CEO thinks that the economic recession will make all companies focus on profitability and that concerns about corporate social responsibility (CSR) will lessen. He has always held the view that CSR provided some public relations benefits but that it has no effect on the financial performance of companies or their share price.

Required:
Discuss how CSR initiatives by a large public company could contribute to the long-term benefits of the company. **(10 marks)**

(Total: 20 marks)

QUESTION THREE

ABB Bank Ltd (ABB Ltd) is a listed company. It has been given a substantial fine by the Central Bank for serious breaches of the banking regulations and, in the same month, the bank reported that it had suffered large losses because of unauthorized dealings in financial derivatives by a manager in its treasury department. The company's reported profits for the previous financial year were over-stated because of these losses.

The chairman of the audit committee of ABB Ltd has resigned, accepting responsibility for failures by the committee. A newly-appointed director has been made chairman of the audit committee. He has called a meeting with you the Finance Director. The purpose of the meeting is to review financial reporting and internal control, with a view to making recommendations to the board. ABB Ltd does not have a strong internal audit function and the company has been using the same firm of external auditors since it acquired its listing 8 years ago.

Required:

a) Explain the ***role and responsibilities*** of the audit committee of ABB Ltd with regards to:

i) The external audit of the company's financial statements; and **(6 marks)**

ii) The internal control system and internal audit function **(6 marks)**

b) In relation to the possible failures in internal controls that have occurred, suggest **FOUR (4)** changes that might be recommended to the board at the next board meeting. **(8 marks)**

(Total: 20 marks)

QUESTION FOUR

An insurance company has developed a new mission statement following a detailed analysis of the company's operations and market place. The mission statement states:

"We want to continually grow through our commitment to quality and delivering quality to customers".

The management developed the following set of vision statements to complement the mission statement:

- Provide superior returns to our shareholders
- Continually improve our business processes
- Delight our customers
- Learn from our mistakes and work smarter in the future

Required:

a) Advice on how the ***Balanced Scorecard*** can assist the insurance company in delivering its vision and strategy. **(12 marks)**

b) Explain **FOUR (4)** limitations of the Balance Scorecard. **(8 marks)**

(Total: 20 marks)

QUESTION FIVE

a) The successful implementation of corporate strategy depends, in part, on effective management of human resource within an organisation.

Required:
Explain **FIVE (5)** human resource management functions that can help accomplish organizational objectives. **(10 marks)**

b) A chairman of the board of directors leads the board in meetings. The board chairman plays a crucial role in developing a focused and effective board. The competence of the chairman of the board of directors is crucial to ensure that the company's board is effective.

Required:
Explain **FIVE (5)** reasons to justify the need to separate the roles of the Chairman and Chief Executive Officer (CEO) of a company. **(10 marks)**
(Total: 20 marks)

QUESTION SIX

Franko Ltd is a producer of accounting software for SMEs. The software is very easy to use, even for a layperson, and has significant functionality for the price level of GH¢4,959 per annum. The package includes all functionality to comply with tax payments, including income tax, (PAYE) and VAT, as well as creditor and debtor accounting and some customer relationship management functions. The firm also has an enhanced package that includes telephone support and free updates for GH¢499 per annum.

Franko Ltd has been very successful and this has led the firm to expand internationally, after starting and developing a business over the past five years, mostly in Accra, Ghana. Franko Ltd has decided to expand into the African market. As an initial step, the business has chosen to enter the Nigerian market and has decided to acquire a Nigerian accounting software business as an entry route into that market, as it is perceived to be so different from the Ghanaian market.

Required:
a) Explain **FOUR (4)** challenges Franko Ltd may face in the acquisition. **(8 marks)**

b) Advise Franko Ltd on how to effectively address the challenges they may face in planning and completing such an acquisition. **(12 marks)**
(Total: 20 marks)

SOLUTION TO QUESTIONS

QUESTION ONE

a) Assessing the strengths and weaknesses of FVL.
STRENGTHS

- The school mates's hands on experience coupled with Peter's competence in drawing and designing are complementary and indispensable to gaining competitive advantage. They are highly skilled, ambitious and have a passion for the job. Peter believes the company should continue to exclusively rely on engagement of experienced hands from the industry.
- The small size of the workforce allows them to fully dedicate themselves to their tasks to produce high quality products
- Few competitors in the Ghanaian Luxury shoe making industry. The footwear making industry in Ghana has an influx of local artisans mainly from Kumasi who produce semi and low quality shoes at very low prices as compared to FVL. They therefore do not pose much threat to FVL taking into consideration the target market of affluent and well off customers who are willing to spend more than most.
- FVL has strong tertiary presence as compared to its competitors in Ghana. They do directs sales to students on campuses and this also helps the company to promote their brand.

(Any 3 points for 3 marks)

WEAKNESSES

- The raw materials used to produce FVL's products are sourced from abroad due to unavailability of such quality in the country. This serves as extra cost for the company due to import, handling and shipping charges plus extra charge from local importers.
- Inadequate funding and lack of access to funding from financial institutions due to lack of credit history
- Inadequate resources to open its own sales outlets as the shoes produced are largely distributed through major retail shops dotted across the country. This could result in price differentials among the various retail shops.
- Not a strong brand internationally as compared to international competitors. The brand is not well known amongst the affluent masses in foreign countries as its advertisement does not reach those boundaries.

(Any 3 points for 3 marks)

b) **REPORT ON THE PROCESS OF STRSTEGIC MANAGEMENT**

Introduction

The strategic management process means defining the organization's strategy. It is also defined as the process by which managers make a choice of a set of strategies for the organization that will enable it to achieve better performance.

Strategic management is a continuous process that appraises the business and industries in which the organization is involved; appraises its competitors; and fixes goals to meet all the present and future competitor's and then reassesses each strategy.

(1 mark)

Strategic Management Process

Strategic management process has following four steps:

- **Environmental Scanning**- Environmental scanning refers to a process of collecting, scrutinizing and providing information for strategic purposes. It helps in analyzing the internal and external factors influencing an organization. After executing the environmental analysis process, management should evaluate it on a continuous basis and strive to improve it.
- **Strategy Formulation-** Strategy formulation is the process of deciding best course of action for accomplishing organizational objectives and hence achieving organizational purpose. After conducting environment scanning, managers formulate corporate, business and functional strategies.
- **Strategy Implementation**- Strategy implementation implies making the strategy work as intended or putting the organization's chosen strategy into action. Strategy implementation includes designing the organization's structure, distributing resources, developing decision making process, and managing human resources.
- **Strategy Evaluation**- Strategy evaluation is the final step of strategy management process. The key strategy evaluation activities are: appraising internal and external factors that are the root of present strategies, measuring performance, and taking remedial / corrective actions. Evaluation makes sure that the organizational strategy as well as its implementation meets the organizational objectives.

(4 points well explained @ 1.5 marks each = 6 marks)

Conclusion

These components are steps that are carried, in chronological order, when creating a new strategic management plan. FVL that is in the process of institutionalizing a strategic approach will revert to these steps as per the situation's requirement, so as to make essential changes.

(1 mark)

c) Cash budget for the six-month period

Cash Budget	June	July	August	September	October	November
	GH¢	GH¢	GH¢	GH¢	GH¢	GH¢
INFLOWS						
40% of sales revenue of 2 previous months	33,600	38,400	38,400	48,000	57,600	62,400
60% Cash revenue	57,600	72,000	86,400	93,600	100,800	115,200
Interest on bank balance	4,450	3,447	3,079	2,093	147	-
TOTAL INFLOWS	**95,650**	**113,847**	**127,879**	**143,693**	**158,547**	**177,600**
OUTFLOWS						
Payables	(60,000)	(72,000)	(72,000)	(84,000)	(90,000)	(90,000)
Direct Costs	(25,000)	(30,000)	(30,000)	(35,000)	(37,500)	(37,500)
Advertising	(12,000)			(18,000)		
Overhead: 80%	(15,360)	(15,360)	(15,360)	(15,360)	(19,200)	(19,200)
Overhead: 20%	(3,360)	(3,840)	(3,840)	(3,840)	(3,840)	(4,800)
New plant			(26,400)	(26,400)	(26,400)	
TOTAL OUTFLOWS	(115,720)	(121,200)	(147,600)	(182,600)	(176,940)	(151,500)
Net Cash flow	(20,070)	(7,354)	(19,721)	(38,907)	(18,393)	26,100
Add Opening Balance	89,000	68,930	61,577	41,855	2,948	(15,445)
Closing Balance	**68,930**	**61,577**	**41,855**	**2,948**	**(15,445)**	**10,655**

(12 marks evenly spread using ticks)

d) Strategies for overcoming the liquidity crisis of FVL

- Directing FVL'S accounts receivable department to bill its customers in a timely fashion and chase any unpaid invoices as soon as they become past due. Money tied up in unpaid invoices can cause FVL company serious liquidity problems. The Directors should consider offering its customers a discount for settling their bills early.

- Analyzing FVL's overhead and look for cost savings. Studying all areas of FVL's business to see where you can save money and free up funds to bolster its firm's liquidity.
- Selling off inventory and assets that are tying up FVL company's cash. Stock that's been sitting in FVL storeroom for six months is costing the firm money. Discount any inventory that's proving hard to shift to get cash flowing back into FVL business. Sell assets it rarely use
- Discussing short-term funding options with FVL bank or other lenders. FVL bank might be willing to extend FVL credit line to help it overcome liquidity problems. If FVL bank is unable to help, approach other lenders or sell some of the equity in FVL firm to an investor to overcome FVL cash flow problems.
- Negotiating new terms with FVL suppliers. Ask for longer period to settle FVL invoices or discuss the possibility of taking stock on a sale-or-return basis. If FVL have been a good customer in the past, there's a good chance it can come to an arrangement, especially if any new deal boosts the amount of goods or services you're able to buy.

(4 points well explained @ 2 marks each = 8 marks)

e) Methods which the Directors of FVL can use to raise long term capital

- **Issue of Shares:**
  Involve the public issue of equity and preference shares in the Ghana stock exchange. Issuing shares is the most common method of raising long-term capital because there are various many investors who are ready to invest in the capital market. Therefore, shares are used to finance projects having long gestation period.
- **Issue of Debentures:**
  Involve the collection of funds by issuing debentures. When FVL issues debentures, it needs to pay a fixed rate of interest to debenture holders.
- **Term Loans:**
  Refers to the funds that are raised from financial institutions for financing long-term projects. The rate of interest on term loans is higher than the rate of interest on debentures.
- **Fund from Operations:**
  Refers to the fund raised by the FVL's own operations. It is the accumulated profit of FVL; therefore, can be used to finance various short-term and long-term projects.
- **Sale of Fixed Assets:**
  Helps in generating funds by selling fixed assets, such as land, buildings, plants, and machineries to finance short-term and long-term projects. However, the usage of this method may hamper the goodwill and creditworthiness of FVL.

(Any 4 points well explained @ 1.5 marks each = 6 marks)

(Total: 40 marks)

QUESTION TWO

a) **IFAC fundamental principles that will be breached form the proposal from the IT director**

- **Integrity**
  This requires members not to be associated with any form of communication or report where the information is materially false, provided recklessly or incomplete.
  Potential problems with the proposed new system that will result in large cash outflow from ABC to upgrade the system has been identified. Following the IT director's suggestion would involve ignoring the issue without a firm idea of how it will be resolved. This means that the report will be incomplete and misleading to its users.
- **Objectivity**
  This requires accountants to ensure that their judgment is not compromised because of bias or conflict of interest. It is likely that the director's demands will be adhered to because failing to do that may jeopardize job career prospects. This would clearly be acting in one's own self-interest.
- **Professional competence and due care**
  This requires accountants to follow all applicable technical and professional standards when providing services.
  It is clearly known that the cost-benefit analysis, when undertaken properly, shows an unfavourable results for the new IT system. Failing to use the correctly obtained result could be seen as a failure to meet professional and technical standards.
- **Professional Behaviour**
  This principle requires accountants to avoid any activities that might bring the profession into disrepute.
  If you are found to have knowingly misled the Board of Directors into buying a system that is not cost effective, it would clearly damage confidence in the accountancy profession.

(4 points well explained at 2.5 marks each = 10 marks)

b) **Contribution of CSR initiatives to the long-term benefit of a company**

- There is almost certainly some element of "public relations exercise" in the CSR pronouncements of companies. Given sufficient publicity, CSR can enhance the reputation of a company with its potential customers and its employees. In the long run, this can have a beneficial effect on sales which can, in turn, lead to competitive advantage
- **Finding and keeping talented staff**

Being a responsible, sustainable business may make it easier to recruit new employees or retain existing ones. Employees may be motivated to stay longer, thus reducing the costs and disruption of recruitment and retraining.

- It may also be argued more generally that the CEO appears to hold the „shareholder view" of corporate governance – which the primary purpose of a company should be to maximise the profits of shareholders. This view may be challenged, for example, with the „enlightened stakeholder view" – that even if the main purpose of a company should be to increase the wealth of shareholders, concern should be shown for other stakeholder groups such as employees, customers, suppliers and society.
- Concerns for matters such as suppliers, communities and employees may help to attract investments from „ethical investors" – investment institutions that specialise in making investments in companies they regard as ethical in their behaviour and business activity. If so, this may have some effect in maintaining the share price.
- **It keeps your company competitive**. When you choose a unique position as a company, and do things differently from competitors it helps your business stand out. This applies to all facts of business, including to social responsibility. Your relationship with society is as important as your relationship with customers. Having a strong vision and connection to a cause that makes a positive impact gives you a competitive advantage.
- **Reduce regulatory burden** - good relationships with local authorities can often make doing business easier.

(Any 5 points well explained @ 2 marks each = 10 marks)

QUESTION THREE

a)

i) Role of the audit committee in relation to the external audit of the financial statements

- The audit committee should monitor the integrity of the company's financial statements. This requirement means that the audit committee has responsibilities regarding the external audit.
- The committee, in consultation with the auditors, review the findings of the audit. At the end of the audit cycle it should assess the effectiveness of the audit. This assessment should include considering the way in which they have treated key accounting judgements and also obtaining feedback about their conduct from people within the company such as the finance director.
- The audit committee should make recommendations to the board in relation to the appointment, re-appointment or removal of the company's external auditors, whose annual appointment is put to the shareholders for approval in general meeting of the company. The committee should also approve the remuneration and terms of engagement of the external auditors that have been negotiated with the auditors by management.

- The audit committee should also review and monitor the independence of the external auditors, and the objectivity and effectiveness of the audit process. Regarding auditor independence, the committee should also develop and implement the company's policy on using the external audit firm for non-audit work, consistent with the ethical guidelines of the auditing profession.
- The audit committee should review the reasons why the fraud by the employee in the treasury department was not identified, and whether the external auditors may have been at fault in any way in failing to identify the problem. Although the auditors do not have responsibility for preventing and detecting fraud, they might be expected to identify and report suspicions of fraud that are uncovered during the audit.

(Any 3 points well explained @ 2 marks each = 6 marks)

ii) Internal control system and internal audit function

- The audit committee should review the company's internal financial controls and, unless addressed by the board as a whole or by another board risk committee consisting of independent directors, it should also review the company's internal control system.
- If the company does not have an internal audit function or a weak internal audit function, the audit committee should consider each year whether there is a need for such a function and make a recommendation to the board. The reasons for not having an internal audit function should also be explained in the report of the audit committee to the shareholders in the annual report.
- The audit committee should also review the adequacy of the whistle-blowing arrangements in the company.

(Any 3 points well explained @ 2 marks each = 6 marks)

b)

- ABB Bank Ltd has experienced some events that could be attributable to weak internal controls. The fine for breach of environmental regulations may be due to failure by company employees to apply appropriate procedures, or there may be inadequate procedures within the company to ensure compliance with the regulations. ***Management should maintain a proactive approach to identifying vulnerabilities unique to their organization and implement effective and efficient internal controls to help prevent serious breaches of the banking regulations.***

- The fraud by the employee may have been made possible by lax financial controls, and possibly also inadequate whistle-blowing procedures that encourage employees to report suspicions of wrongdoing in confidence. ***There should be separation of duties involving the custody of assets, authorization of transactions affecting those assets and recording/reporting of related transactions***. The underlying theory of separation of duties is that a single employee should not be in a position to both commit and then conceal fraudulent activities.

- The adequacy of the company's internal controls should therefore be reviewed as a matter of some urgency. It is possible that the audit committee has failed in its responsibilities in this respect, but ***the board may be prepared to allow the new chairman of the audit committee to lead the investigation***.

- The investigation should be conducted by individuals who are independent of operational management. ***The audit committee should also be asked to review, in the light of any failings in internal control, whether the company should establish an internal audit function.***

(Any 4 recommendations well explained @ 2 marks each = 8 marks)
(Total: 20 marks)

QUESTION FOUR

a) Advise on how Balanced Scorecard could assist in delivering vision and strategy

- **Better Strategic Planning**
  The Balanced Scorecard provides a powerful framework for building and communicating strategy. The business model is visualized in a Strategy Map which forces managers to think about cause-and-effect relationships. The process of creating a Strategy Map ensures that consensus is reached over a set of interrelated strategic objectives. It means that performance outcomes as well as key enablers or drivers of future performance (such as the intangibles) are identified to create a complete picture of the strategy.
- **Improved Strategy Communication & Execution**
  The fact that the strategy with all its interrelated objectives is mapped on one piece of paper allows companies to easily communicate strategy internally and externally. We have known for a long time that a picture is worth a thousand words. This „plan on a page‟ facilities the understanding of the strategy and helps to engage staff and external stakeholders in the delivery and review of strategy.
- **Better Management Information**
  The Balanced Scorecard approach forces to design key performance indicators for their various strategic objectives. This ensures that companies are measuring what actually matters. Research shows that companies with a Balanced Scorecard approach tend to report higher quality management information and gain increasing benefits from the way this information is used to guide management and decision making.
- **Improved Performance Reporting**
  Companies using a Balanced Scorecard approach tend to produce better performance reports than without such a structured approach to performance management. Increasing needs and requirements for transparency can be met if companies create meaningful management reports and dashboards to communicate performance both internally and externally.
- **Better Strategic Alignment**

Balanced Scorecard enables better alignment of the organization's strategic objectives. In order to execute a plan well, organization need to ensure that all business and support units are working towards the same goals.

- **Better Alignment of Projects and Initiatives**
  The Balanced Scorecard help organisations map their projects and initiatives to the different strategic objectives, which in turn ensures that the projects and initiatives are tightly focused on delivering the most strategic objectives.

(6 points @ 2 marks each = 12 marks)

b) Drawbacks of Balanced Scorecard

- It does not provide a single overall view of performance. Measures like ROCE are popular because they conventionally summarise how things are going into one convenient measure.
- There is no clear relation between the balanced scorecard and shareholder analysis
- Measures may give conflicting signals and confuse management. For instance, if customer satisfaction is falling along with one of the financial indicators, which should management sacrifice?
- It often involves a substantial shift in corporate culture in order to implement it.

(4 points @ 2 marks each = 8 marks)

(Total: 20 marks)

QUESTION FIVE

a) Human Resource Functions

- **Hiring and Recruiting**
  One of the primary functions of the human resources department is to oversee hiring and recruiting within an organization. The department actively recruits, screens, interviews and hires qualified candidates for open positions. The department administers skills assessment and personality tests to match candidates with the right job within the company. The human resources department also develops employee handbooks that explain company policies and procedures to new hires.
- **Training and Development**
  The human resources department handles the training and development of staff within an organization. It creates training programs and conducts training for new hires and existing employees. The human resources department also works in conjunction with department managers and supervisors to determine the training needs of employees. They are also responsible for contracts with training providers and monitoring training budgets.
- **Handling Compensation**

The human resources department is responsible for various aspects of employee compensation. The department typically handles employee payroll and ensures employees are paid accurately and on time, with the correct deductions made. Human resources departments also manage compensation programs that include pensions and other fringe benefits offered by the employer.

- **Employee Benefits**
  The human resources department manages all aspects of employee benefits, including health and dental insurance, long-term care or disability programs as well as employee assistance and wellness programs. The department keeps track of employee absences and job-protected leave, such as family medical leave. Human resources department representatives ensure employees receive the proper disclosures regarding benefit eligibility or if benefits are no longer available because of a layoff or termination.
- **Employee Relations**
  The human resources department handles employee relations matters within an organization. Employee relations involves employee participation in different aspects of organizational activities. The department maintains the relationship between employees and management by promoting communication and fairness within the company. The department also handles disputes between employees and management, as well as disputes between the company and labour unions or employee rights organizations.
- **Legal Responsibilities**
  The human resources department is responsible for interpreting and enforcing employment and labour laws such as equal employment opportunity, fair labour standards, benefits and wages, and work hour requirements. The department also investigates harassment and discrimination complaints and ensures company officials remain compliant with the Labour Act 2003 (Act 651)

(5 points well explained @ 2 marks each = 10 marks)

b) Separation of the roles of chairman and CEO of a company

Role of the Chairman and Managing director/CEO should be separate for the effective functioning of the company's board. The chairman and the board are responsible for monitoring and evaluating the performance of the company, while the managing director represent the management team. So, it requires that the roles are performed by two different persons, thereby increasing the accountability of Managing Director. A clear demarcation of their roles ensures proper balance of power. Following are the benefits of separation of roles of Chairman and Managing Director:

- ***Director communication*:** A separate chairman provides a more effective channel for the board to express its views on management.

- ***Guidance:*** A separate chairman can provide the CEO with guidance and give feedback on the performance of the Managing Director.
- ***Shareholders' interest:*** The chairman can focus on shareholders' interest and the CEO can manage the company.
- ***Governance:*** A separate chairman allows the board to more effectively fulfill its regulatory requirements.
- ***Long term outlook:*** The chairman can focus on the long-term strategy while CEO can focus on short term profitability.
- ***Succession Planning:*** A separate chairman can more effectively focus on corporate succession plans.

(5 points well explained @ 2 marks each = 10 marks)
(Total: 20 marks)

QUESTION SIX

a) Challenges in Successful Acquisitions

While it is clear that there are several benefits to acquisition as an entry route for Franko ltd, they will also face real challenges. There are several difficulties associated with the acquisition process.

- The target business does not perform as well as expected.
- Costs savings and other synergies do not materialize.
- Key people in the target firm leave
- The organisational cultures of the two firms are incompatible. This is particularly the case when it is a cross border acquisition.
- The acquirer is unable to manage the acquisition and integration process effectively.

(4 points for 8 marks)

b) Overcoming the challenges

- The extent and quality of the planning and research Franko ltd. does before it pursues an acquisition deal will probably largely determine the outcome. If Franko ltd. is careful and extensive in its research, it is more likely that the acquisition it negotiates will bring the expected benefits. In addition to this, Franko ltd. need to recognise that this is the first time it has attempted an acquisition, and it is even further complicated that the target firm is going to be foreign – Nigerian. Franko ltd. will need to obtain good accounting and legal advice, and similarly, the use of a consulting firm / investment bank with experience in such acquisitions would be important. Franko ltd., and its advisors will need spend an amount of time researching the Nigerian accounting software sector to identify possible acquisition targets. In some ways, this is probably the most important step. If Franko ltd. can identify a target that matches its business objectives and which seems to be a good organisational and cultural fit, this will increase the probability of success.
- Any deal with have to be friendly. Franko ltd. cannot push private firm's shareholders to sell, as can happen with the hostile take-over of a plc. Therefore as part of the target

search, understanding the goals of the target's existing owners is key. This may usefully be linked to the retention of key staff after the acquisition: Franko ltd. may be able to stipulate that existing owner managers must/may stay for eg three years after the acquisition. This can tie in key staff and simultaneously reassure the target business's owners.

- Another important step for Franko ltd. will be to complete a comprehensive due diligence on the target firm. This is another area where Franko ltd.'s advisors will play a key role. As well as the usual financial, legal, HR elements, the due diligence should pay particular attention to the organisational culture of the target firm, and to what extent it may facilitate the acquisition. This is particularly important as the target firm is to be Nigerian. In effect, the objective of the due diligence is to ensure that Franko ltd. really understands the organisation it intends to acquire and that there are no surprises later.
- The last, and major step, in successful acquisitions, is to integrate the acquired firm into the acquiring firm's organisation and systems. Franko ltd. needs to make the decision on the relative merits of leaving the acquired Nigerian firm as a stand-alone entity versus the benefits of absorbing it into Franko ltd. on balance, it seems more logical to allow the Nigerian firm initially maintain its independence and to only incrementally integrate it. This will minimise the organisational disruption of the acquisition, reassure the Nigerian managers and staff, while still providing Franko ltd. With access to the Nigerian market, new services and products and the opportunity to learn about the Nigerian firm and market over time. This is important because of the large differences between Ghanaian and Nigerian culture and business culture.

(4 points well explained @3 marks each = 12 marks)
(Total: 20 marks)