Professional - Module

Governance, Risk and Ethics

Time allowed : 15 minutes for reading and planning

3 hours for writing

December 16 – 2025

Section (A) The Question Compulsory .

Section (B) Answer Only Two Question

Paper P1

The Accountancy & Audit Profession Org. Council - Sudan

AAPOC

Governance, Risk and Ethics P1

Section (A)

Answer all questions

Question (1):

Global - bank is a prominent European bank with branches throughout Europe and investment arms in many locations throughout the world. It is regarded as one of the world's major international banks. Through its network of investment offices throughout the world, fund managers trade in local investment markets and equities. Futures and derivative traders also operate. Its primary listing is in London although it is also listed in most of the other global stock markets including New York, Hong Kong, Frankfurt and Singapore. As with similar banks in its position, Global - bank's structure is complicated and the complexity of its operations makes the strategic management of the company a demanding and highly technical process. Up until the autumn of 20X8, investors had a high degree of confidence in the Global - bank board as it had delivered healthy profits for many years.

In the ser autumn of 20XB , it came to light that Jack Mineta , a Global - bank derivatives trader in the large city office in Philos , had made a very large loss dealing in derivatives over a three - month period . It emerged that the losses arose from Mr. Mineta's practice of ignoring the company trading rules which placed limits on, and also restricted, the type of financial instruments and derivatives that could be traded.

The loss , estimated to be approximately US $ 7 billion , was described by one analyst as ' a huge amount of money and enough to threaten the survival of the whole company . As soon as the loss was uncovered , Mr Mineta was suspended from his job and the police were called in to check for evidence of fraud . The newspapers quickly reported the story, referring to Mr. Mineta as a ' rogue trader and asking how so much money could be lost without the bank's senior management being aware of it. It turned out that Mr. Mineta's line manager at the Philos office had ignored the trading rules in the past in pursuit of higher profits through more risky transactions . Mr. Mineta had considerably exceeded his trading limit and this had resulted in the huge loss . It later emerged that Mr. Mineta had been dealing in unauthorised products which were one of the riskiest forms of derivatives .

At a press conference after Mr Mineta's arrest , Global - bank's chief executive , Mrs. Barbara Keefer , said that her first priority would be to ask the Philos office why the normal internal controls had not been effective in monitoring Mr. Mineta's activities . It emerged that Mr. Mineta had in the past been one of Global - bank's most profitable derivatives traders . Some journalists suggested to Mrs. Keefer that the company was happy to ignore normal trading rules when Mr. Mineta was making profits because it suited them to do so .

Another derivatives trader in the Philos office , Emma Hubu , spoke to the media informally . She said that Mr Mineta was brilliant and highly motivated but that he often said that he didn't care about the trading rules .

Miss Hubu explained that M : Minets didn't believe in right and wrong and once told her that ' I'm in this job for what I can get for myself - big risks bring big returns and big bonuses for me . She also explained that the culture of the Philos office was driven by Mr Mineta's line manager , Juan Evora . She said that Mr Evora knew that Mr Mineta was breaking trading rules but was also very profits driven and kept compliance information from head office so that the nature of Mr Mineta's trading was not uncovered . The compliance information was required by head office but several failures to return the information had not been acted upon by head office . Mr. Evora's bonus was directly linked to the size of the Philos office's profits and all of the derivatives traders , including Mr Mineta , were regularly risks to make big returns . Miss Hubu said that trading were not enforced and that head office never got involved in what went on in Philos as long as the annual profits from the Philos derivative traders were at or above expectations .

It emerged that the lack of correct information from Philos and elsewhere meant that Global - bank's annual report statement of internal control effectiveness was not accurate and gave an unduly favourable impression of the company's internal controls . In addition , the company's audit committee had been recently criticised by the external auditors for a lack of thoroughness . Also , the audit committee had recently lost two non - executive members that had not been replaced .

The amount lost by Mr Mineta made it necessary to refinance the Global - bank business and when the board recommended a US $ 5 billion rights issue , some of the institutional investors demanded an extraordinary general meeting (EGM) . Global - bank's largest single shareholder , the Shalala Pension Fund , that held 12 % of the shares , was furious about the losses and wanted an explanation from Mrs Keefer on why internal controls were so ineffective . When the Shalala trustees met after the losses had been reported , it was decided to write an urgent letter to Mrs Keefer expressing the trustees ' disappointment at her role in the internal control failures at Global- bank . The letter would be signed by Millay Haber , the chairman of the Shalala trustees .

At the EGM , Mrs Keefer made a statement on behalf of the Global - bank board . In it she said that Mineta had been a rogue trader who had wilfully disregarded the company's internal controls and was , in breaking the company's trading rules , criminally responsible for the theft of company assets . She denied that the main Global - bank board had any responsibility for the loss and said that it was a ' genuinely unforeseeable ' situation . Kohlberg's theory of the development of moral reasoning contains three levels , with each level containing two stages or ' planes ' . It is a useful framework for understanding the ways in which people think about ethical issues .

Required:

a) (i) Explain the three levels of Kohlberg's theory . (6 marks)

(ii) Identify the level that Mr. Mineta operated at and justify your choice using evidence from the case (4 marks)

(iii) Identify, with reasons, the stage (or 'plane') of Kohlberg's moral development most appropriate for a professional bank employee such as Mr. Mineta as he undertakes his trading duties. (2 marks)

b) Explain FIVE typical causes of internal control failure and assess the internal control performance of Global- bank in the case scenario. (10 marks)

c) Analyse the agency relationship that exists between the board of Global - bank and the trustees of the Shalala Pension Fund. (4 marks)

d) Distinguish between narrow and wide stakeholders and identify three narrow stakeholders in Global - bank (based on Evan & Freeman's definition) from information in the case. Assess the potential impact of the events described on each narrow stakeholder identified. (10 marks)

e) You have been asked to draft a letter from Millau Haber, chairman of the Shalala trustees, to Mrs Keefer as a result of concerns over the events described in the case. The letter should explain the roles and responsibilities of the chief executive in internal control, and criticise Mrs Keefer's performance in that role. (10 marks)

- Professional marks are available in part (e) for the structure, content, style and layout of the letter. (4 marks)

(Total = 50 marks)

Section (B)

Answer Only Tow Question

Question (1):

After the government of Haitchland decided to privatise its monopoly gas supplier (transferring it from government control to private ownership by issuing and selling shares) , there was a period of transition as the new board took shape . A great deal of internal reorganisation and culture change was deemed necessary as the company moved to the private sector. The new company, called Dale Gas, set up a committee structure in readiness to comply with stock exchange listing rules. During this transitional period, some directors left and new ones, more familiar with operating in listed companies but unfamiliar with the gas industry, joined the board.

It was unanimously agreed by the new board that the previous chief executive, Helen Evans, should continue in her role after the privatisation . Tom Nwede, a fund manager at XY Investments, one of the company's major new institutional shareholders, said that the company would be exposed to higher market risk if she were to leave the company, so it was very important that she stayed on. She was seen as a highly competent CEO with excellent strategic and communication skills. She commanded the confidence and trust of the employees and also the new institutional investors.

One of the first actions of the new remuneration committee was to propose a doubling of Mrs. Evans's salary. The committee said that she had been underpaid when the company was state - controlled because of government constraints on the salaries of public servants. The committee said that she now needed to receive a salary commensurate with the importance of the job and in line with other public listed companies of similar size. This proposal was widely publicised . Some criticised it on the basis that if her previous salary was considered sufficient then, why was it now felt necessary to double her rewards after privatisation?

Her new salary was put to the vote at the company's first annual general meeting after privatisation. Although many small shareholders (some protesting at the AGM itself) voted against her salary increase, it was easily passed by the proxy votes of the large institutional shareholders who did not attend the meeting in person. Tom Nwede, the XY Investments fund manager, said that the votes of the institutional shareholders were crucial in ensuring that Mrs. Evans was retained, thereby mitigating market risk.

Required:

a) Explain the purposes of a chief executive's reward package and review the factors that might influence the level of reward for Mrs. Evans after the privatisation (10 marks)

b) Define ' market risk ' and justify, giving reasons, Tom Nwede's belief that retaining Mrs. Evans was crucial in mitigating market risk. (10 marks)

c) Define, and explain the advantages of, ' proxy voting ' in the context of the case. (5 marks)

(Total = 25 marks)

Question (2):

In the country of Laland, aid organizations registered as charities are not subject to the same financial reporting requirements as limited companies (this is not the case in many other countries where they are treated equally in law). One person to take advantage of this is Horace Hoi who has led his vigorous campaign in favour of animal protection for the past 25 years. As a highly competent self - publicist for his charity and an engaging media performer, he has raised the public profile of his charity substantially. He can and does raise large amounts of money for his charity through his personal charm and passionate appeals on television and in large meetings of supporters. His charity is called the ' Horace Hoi Organization ' (HHO) and its stated aim is to stop animals suffering '. Mr. Hoi has recently become the subject of criticism by the media because of allegations that he lived a lavish lifestyle and personally owned a large mansion and a number of classic cars. The HHO recently bought a private jet to support Mr. Hoi in his travels around the world for speaking engagements and for his work for the HHO charity. One journalist reported that most of the donors to HHO are well - meaning individuals, mainly of modest means, who care greatly about animal suffering and who would be ' horrified ' if they knew of the luxury in which Mr. Hoi lived.

Despite the fact that Mr. Hoi had claimed that he personally takes only a modest salary from the organization: for his work, a journalist recently estimated Mr. Hoi's personal wealth, thought to be gained from the HHO, to be around $ 10 million. When challenged to disclose the financial details of the HHO and Mr. Hoi's own personal earnings, a HHO spokesman simply replied that this was not required under the law in Laland and that the HHO was therefore fully compliant with the law. The HHO has refused to join a group of other charities that have undertaken to make full financial disclosures despite it not being mandatory in law. The HHO says that although it does produce1 financial information for the charity and tax authorities, it has no intention of making this information public. The HHO also makes no disclosures about its governance structures and was once criticised as being ' intentionally opaque in order to hide bad practice '.

In yielding to the media pressure to provide some information on its financial affairs, HHO eventually published a pie chart on its website saying that its expenditure was divided between animal shelters (57 %), field work helping animals (32 %), administration (6 %) and other causes (5 %). This was the totality of its public financial disclosure.

Required:

a) Discuss the ways in which charities differ from public listed companies and explain how these differences affect their respective governance structures. (9 marks)

b) Define ' transparency ' and construct the case for greater transparency in the governance of the Horace Hoi Organization (8 marks)

Audit committees can have a role in reviewing internal controls and addressing areas of deficiency.

c) Explain how an audit committee might assist in addressing the apparent internal control deficiencies at HHO. (8 marks)

(Total = 25 marks)

Question (3):

The Sarbanes - Oxley legislation in the United States was introduced in 2002, partly in response to the earlier failure of the American energy company, Enron. It was decided by United States legislators that compliance should be enforceable under law rather than under listing rules. At the time it was being debated, some said that the legal enforceability of Sarbanes - Oxley would be unfair to smaller companies without the infrastructure needed to generate internal control data and to report on it. One example of this was the debate over s.404 of Sarbanes - Oxley, which mandated external reporting on the adequacy of internal controls. Before a size criterion was later introduced. this applied equally to all companies but now smaller companies are partly exempted from this requirement.

In its advice on this requirement, the United States Securities and Exchange Commission (SEC) published the following comments:

The rules we adopted in June 2003 to implement s.404 of the Sarbanes - Oxley Act of 2002 ('Sarbanes - Oxley') require management to annually evaluate whether internal control over financial reporting (ICFR) is effective at providing reasonable assurance and to disclose its assessment to investors. Management is responsible for maintaining evidential matter, including documentation, to provide reasonable support for its assessment. This evidence will also allow a third party, such as the company's external auditor, to consider the work performed by management.

Required:

a) distinguish between rules and principles - based approaches to the regulation of corporate governance, and explain the disadvantages of a rules - based system such as Sarbanes - Oxley in the United States. (7 marks)

b) Define ' agency ' in the context of corporate governance and discuss the benefits to shareholders of 'maintaining a system of internal control over financial reporting' in a rules - based jurisdiction. (10 marks)

c) Construct the case to exempt smaller companies from the full reporting requirements of s.404 of the Sarbanes - Oxley Act 2002. (8 marks)

(Total = 25 marks)