KENYATTA UNIVERSITY
UNIVERSITY EXAMINATIONS 2014/2015

DIGITAL SCHOOL OF VIRTUAL & OPEN LEARNING
SECOND SEMESTER EXAMINATION FOR THE DEGREE OF MASTER OF PUBLIC POLICY AND ADMINISTRATION
APP 808: CORPORATE GOVERNANCE IN THE PUBLIC SECTOR

DATE: THURSDAY 30TH APRIL 2015 TIME: 9.00 A.M. – 12.00 P.M.

INSTRUCTIONS
Attempt Question ONE (Compulsory) and any other 2

Question one (30 Marks)

Read the case below and answer the questions that follow:

CATALOGUE OF IRREGULAR TENDERS THAT LEFT MILLER'S AUDITORS SCRATCHING THEIR HEADS

A contentious Sh63.4 million tender for construction of a cane buying centre at Nabakholo town was not fairly awarded by Mumias Sugar Company, an audit revealed. The auditors found a lack of fairness in the whole process. The winning bid by Hain Building Construction Company but it had the lowest bid, it also scored the lowest evaluation mark from the tendering committee. In addition, it was discovered that Hain had gaps in terms of access to credit and did not have any experience handling projects of such magnitude. The tendering committee thus resolved to begin negotiations with the second lowest bidder - Associated Construction Limited. The minutes to this meeting were approved by then Mumias Sugar Company Managing Director. However, in what seems to have been another meeting held on the same day, the MD, signed off another set of minutes indicating that Hain provided supporting documents for all the queries that had been raised about it in the earlier meeting. The report also points to blatant procurement fraud directly perpetuated by senior management. On June 14, 2011, a proposal for provision of pest control and fumigation services was sent by Keybay Pest Control Services to the then Managing Director. The proposal to rid the premise of many pests, including mosquitoes was for a quoted price of Sh423,155 per month. At the time of the proposal, all sanitary and fumigation services were being done by the in-house health and safety department.

But on the same day, even with this information, the MD approved the tender and on June 15, a day after sending the proposal to Mumias, Keybay was in business with the sugar miller.

Two months earlier, the company's Safety and Health Manager had expressed reservations on the deal to outsource the fumigation services since the department had a cost effective way of dealing with the pests. "Since we have not concluded our review, please delay the award of the tender as we undertake further analysis on the effectiveness of the other control measures. We shall advise you if it will be necessary to progress with the award and when to do so," Muriithi's memo read. His recommendations were subsequently ignored. Investigations by KPMG revealed that Keybay's director was married to Mumias' Company Secretary. In just one year, the value of the tender had shot from Sh423,155 to Sh1.4 million per month. This was attributed to the high cost of chemicals and an expanding job scope. The changes were never presented to, or approved by the tendering committee. The audit also found that Company Secretary would prepare legal documents for Kebay. "The Auditor found a template of an engagement letter with Kebay's letterhead in her laptop and a template of the proposal of provision of pest services dated October 29, 2010 addressed to Mumias Sugar Company. The auditors also discovered that she used her position to fast track payments to Keybay. The company secretary was responsible for the drafting of contracts between Keybay and Mumias.

Adopted from www.standardmedia.co.ke, by Daniel Wesangula

i. Identify the stakeholders in this case (2 Marks)

ii. Discuss the governance issues that have been cited in the case (10 Marks)

iii. Using the knowledge you have gained in the course, discuss how these issues could have been eliminated or dealt with (8 Marks)

iv. Using a suitable theory, discuss how governance pillars were or were not observed at Mumias Sugar Company (10 Marks)

Question Two: (20 Marks)

Using relevant examples compare and contrast stakeholder theory to stewardship theory as relates to corporate governance (20 Marks)

Question Three (20 Marks)

a) Discuss the various functions and responsibilities of the Board of Directors; the Managing Director and shareholders of a corporate. (10 Marks)

b) What role does corporate governance play in the overall sustainability of public organizations? (10 Marks)

Question Four (20 Marks)

a) Using suitable examples, distinguish between corporate governance and corporate social responsibility. (10 Marks)

b) Discuss any five pillars that guide corporate governance (10 Marks)

Question Five (20 Marks)

c) Using the case of Uchumi, discuss the issues that can bring down or enhance such corporates. (10 Marks)

d) Using Safaricom as an example, discuss the concept of Agency theory and how applicable is it to the company (10 Marks)