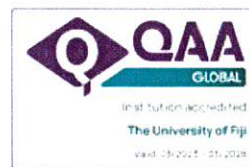




The University of Fiji
(An Entity of Arya Pratinidhi Sabha of Fiji)



SCHOOL OF BUSINESS AND ECONOMICS

Department of Accounting and Finance

Semester 1, Year 2026

FINAL EXAMINATION PAPER

ACC402: ETHICS, GOVERNANCE AND ACCOUNTABILITY

INSTRUCTIONS:

1. Read the questions and the instructions carefully and answer the questions.
2. You are allowed an **extra 10 minutes reading time** (during this time, you are not allowed to write with a pen) and **180 minutes (3 Hours) to complete this paper**.
3. A silent, non-programmable calculator is allowed, but not supplied. Electronic Devices are not permitted.
4. Write all your answers in the answer booklet provided. If you need extra sheets, please ask the supervisor.
Write your name, course code and student identification number on the answer booklet.
5. This Examination Paper is worth **100 marks** and **contributes 40%** towards the total assessments. You must score at least 40 marks in this exam and an overall of 50% to pass this course.
6. This paper contains **Three Sections**, and all questions are compulsory to answer.
7. State all your assumptions clearly and provide relevant examples where applicable.
8. Write all your answers legibly. The marker has the right to award zero for illegible answers.
9. This is a **Closed Book Examination**. The University views cheating and dishonest practices as serious offences, and if found, disciplinary action will be taken as per the University policies.

Examination Format:

<u>Section</u>	<u>Question</u>	<u>Contents</u>	<u>Marks</u>	<u>Suggested Time</u>
A	1-4	Short Answer Questions	40	70 minutes
B	5-6	Long Essay Questions	40	70 minutes
C	7	Case Study Analysis	20	40 minutes
		TOTAL	100	180 Minutes

*Registered with the Fiji Higher Education Commission as a University under the Higher Education Act 2008.
Registration Certificate Number (RGN0020/11)*

SECTION A

SHORT ANSWER QUESTIONS (40 MARKS)

(Suggested Time: 70 Minutes)

Answer all the questions stated below. Each question is worth 10 Marks. (word limit 150 to 250 words)

Question 1: Role of the Board in Corporate Governance

Explain the significance of splitting the roles of Chairman and Chief Executive Officer in promoting effective corporate governance. In your answer, refer to relevant reports and research findings. **(10 Marks)**

Question 2: Role of Institutional Investors in Corporate Governance

Discuss the concept of stewardship in corporate governance and explain why the Walker Review considered it necessary to introduce a formal Stewardship Code for institutional investors in the United Kingdom. **(10 Marks)**

Question 3: Transparency, Audit, Internal Control, and Risk Management

Explain the importance of corporate risk disclosure in effective corporate governance and discuss what institutional investors expect from risk disclosures made by companies in their annual reports. **(10 Marks)**

Question 4: Corporate Governance and Internal Control

Explain the three elements of a fraud risk management strategy and discuss how each element helps an organisation minimise its exposure to fraudulent activities. **(10 Marks)**

SECTION B – LONG ESSAY QUESTIONS (40 MARKS)

(Suggested Time: 70 Minutes)

Question 5: Internal Audit Function

The internal audit function (IAF) is an agentic actor that has the potential to promote a culture of integrity within an organization (Azam et al., 2026).

REQUIRED:

Write an essay of 400 to 450 words and:

1. Discuss the six types of internal audit with examples. **(6 marks)**
2. Explain the role of the IAF in the risk management process. **(5 marks)**
3. Deliberate on any three key benefits of outsourcing the IAF. **(5 marks)**
4. How the IAF is of importance to the external auditors during financial statement audits. **(4 marks)**

Question 6: Corporate Governance

Corporate governance (CG) ensures that businesses have appropriate decision-making processes and controls in place so that the interests of all stakeholders are balanced (Banda and Mwange, 2023).

REQUIRED:

Write an essay of 400 to 450 words and:

1. Discuss agency theory and explain how it justifies many of the CG reforms. **(10 marks)**
2. How can accountants contribute to effective governance in an organisation? Explain. **(5 marks)**
3. Principle 2 of the CG Code in Fiji emphasized the need for an effective Board. What is the code's stand on the size of non-executive/ independent directors? Elaborate in detail. **(5 marks)**

SECTION C – CASE STUDY ANALYSIS (20 MARKS)

(Suggested Time: 40 Minutes)

Q 7: Luckin Coffee: The Better Taste of Corporate Deception

Company Overview

Luckin Coffee Inc. was founded in October 2017 and is headquartered in Xiamen, China. The company positioned itself as a technology-driven challenger to global coffee giant Starbucks, offering a unique app-based ordering model that allowed customers to order and pay for coffee entirely through a mobile application, eliminating the need for traditional cashier-based transactions. Luckin grew at an extraordinary pace, opening its first store in January 2018 and expanding to over 4,500 outlets across China by early 2020, surpassing Starbucks in terms of total store count in China within just two years of operation. In May 2019, Luckin successfully listed on the NASDAQ stock exchange in the United States, raising approximately 651 million dollars in its initial public offering and achieving a market capitalisation of over 12 billion dollars at its peak. The company was celebrated internationally as a shining example of Chinese technological innovation and entrepreneurial ambition, attracting significant investment from major global institutional investors who were drawn by its remarkable growth story and technology-focused business model.

Ambition, Expansion, and the Hidden Deception

Behind Luckin's celebrated growth story lay a systematic and carefully orchestrated fraud that had been building since at least the third quarter of 2019. The company's management, led by Chief Executive Officer Jenny Qian Zhiya and Chief Operating Officer Liu Jian, fabricated transactions on a massive scale to artificially inflate reported revenues, customer numbers, and store-level profitability. The fraud involved the creation of fictitious sales transactions through a network of corporate customers, with approximately 2.2 billion Chinese yuan, equivalent to around 310 million US dollars in revenues, being entirely fabricated during the period from the second quarter of 2019 through the first quarter of 2020.

The mechanism of the fraud exploited the company's technology-driven business model. Because all transactions were processed through the Luckin mobile application, management was able to create and record large volumes of fictitious orders that appeared authentic within the company's own systems. Fake corporate vouchers were created and distributed through related party entities, generating the appearance of genuine bulk corporate purchasing activity. The proceeds of fraudulent transactions were cycled through a complex network of accounts to create the appearance of legitimate revenue flows, making detection significantly more difficult for auditors and regulators.

Warning signs had been raised as early as January 2020 when an anonymous research report published by short seller Muddy Waters Research alleged widespread fraud at Luckin, citing detailed evidence of fabricated transactions and inflated revenues. Luckin's management immediately and aggressively denied all allegations, describing the report as false and misleading. Initial reactions from many analysts and investors were to dismiss the short seller report, and Luckin's share price recovered relatively quickly following the initial allegations. This response delayed meaningful investigation and allowed the fraud to continue for several additional months before the company itself was forced to acknowledge the truth.

Governance and Oversight Breakdown

Luckin's corporate governance structures were profoundly inadequate for a company listed on a major international stock exchange. The board of directors was dominated by insiders closely connected to the company's founding shareholders, with genuine independent oversight effectively absent in practice despite formal compliance with NASDAQ listing requirements. The concentration of effective control in the hands of a small group of executives and founding shareholders created an environment in which independent challenge of management decisions and representations was neither encouraged nor genuinely possible.

The audit committee, which bears primary responsibility for overseeing the integrity of financial reporting and the external audit relationship, failed comprehensively. The committee did not take adequate independent action in response to the detailed and specific allegations raised in the Muddy Waters short seller report in January 2020, allowing management to lead the public response rather than immediately commissioning an independent investigation. This failure to respond appropriately to credible external concerns about financial reporting integrity represents a fundamental abdication of the audit committee's core responsibilities.

Ernst and Young served as Luckin's external auditor and initially failed to detect the fabricated transactions despite significant red flags in the company's reported financial performance. The extraordinary growth rates being reported, combined with the unusual patterns of corporate voucher usage and the complexity of related party transactions, should have prompted significantly heightened scrutiny and more rigorous independent verification procedures. The auditors' failure to identify and report the fraud before the company's own internal investigation revealed it raised serious questions about the adequacy of audit procedures applied to a high-risk, rapidly growing, newly listed company.

The Unravelling and Its Consequences

On April 2, 2020, Luckin Coffee made a stunning announcement that its own internal investigation had uncovered fabricated transactions amounting to approximately 2.2 billion Chinese yuan during 2019. The company's share price collapsed by approximately 75 percent in a single trading day, one of the most dramatic single-day share price collapses in NASDAQ history. Trading in Luckin shares was subsequently halted multiple times as the full extent of the fraud became clearer through ongoing investigations by the company, its auditors, and regulatory authorities in both China and the United States.

The consequences were swift, severe, and far-reaching. CEO Jenny Qian Zhiya and COO Liu Jian were suspended immediately following the internal investigation announcement and subsequently dismissed. Multiple other senior executives and employees involved in the fraud were identified and removed. Luckin was delisted from NASDAQ in June 2020 following the stock exchange's determination that the company was no longer suitable for listing. The company entered into a settlement with the United States Securities and Exchange Commission in December 2020, agreeing to pay a penalty of 180 million dollars for securities fraud. Luckin also reached a separate settlement with US class action investors. Founding shareholder Charles Lu Zhengyao faced a criminal investigation by Chinese authorities. Thousands of investors who had purchased shares based on materially false financial information suffered catastrophic financial losses. Employees faced extreme uncertainty and reputational damage through their association with one of China's most notorious corporate scandals.

Lessons and Reform

The Luckin Coffee scandal exposed profound weaknesses in corporate governance, financial oversight, and audit quality standards applicable to Chinese companies listed on United States stock exchanges, a category

of company that had attracted enormous investor interest but operated under governance and oversight frameworks that proved entirely inadequate to protect investor interests. The scandal triggered significant regulatory responses in both China and the United States, including enhanced scrutiny of Chinese listed companies by the SEC and PCAOB, and contributed directly to legislative developments in the United States aimed at strengthening audit oversight of foreign private issuers accessing US capital markets.

The case stands as a powerful and sobering reminder that rapid growth, technological innovation, and celebrated entrepreneurial success provide no guarantee of genuine corporate integrity. Without effective board oversight, robust internal controls, genuine transparency, and meaningful stakeholder accountability, even the most celebrated and rapidly growing companies can conceal catastrophic governance failures until collapse becomes inevitable and the damage to investors and other stakeholders is irreversible.

REQUIRED:

Carefully read the case study above and answer ALL of the following questions in the format specified:

1. Propose a suitable academic title for this case and provide a brief justification connecting your title to the corporate governance concepts you have studied in this course. **(2 Mark)**
2. Write a concise summary of the case in one paragraph, capturing the key facts, main parties involved, and overall outcome. **(2 Mark)**
3. Using bullet points, identify the key corporate governance issues that arise from this case. **(4 Marks)**
4. Critically analyse and evaluate each issue you have identified, discussing causes, consequences, and implications with reference to corporate governance theories, principles, and research studied in this course. **(8 Marks)**
5. Propose justified recommendations as follows:
 - a. Immediate Recommendations (minimum two): Practical short-term actions to address the most urgent governance failures identified. **(2 Marks)**
 - b. Strategic Recommendations (minimum two): Long-term systemic reforms to prevent recurrence and strengthen corporate governance going forward. **(2 Marks)**

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