

UNIVERSITY OF COLOMBO, SRI LANKA

FACULTY OF MANAGEMENT AND FINANCE

Bachelor of Business Administration Honours in Accounting (Semester VII) Examination –
October, 2021

ACT 4222 – Internal Control and Risk Management

Two (02) Hours

This is an Open Book Examination

This Paper Consists of Six (06) Questions Printed on Five (05) Pages

Answer Five (05) Questions in all including Question 01

Use of Calculators is Permitted

1. Super Plants Ltd is a recently commenced business which sells diverse flower plants to customers. At present, the company is growing with an acquisition of a considerable market share in the flower plants industry. However, due to the COVID-19 pandemic, the company's operations are affected in many ways. By adhering to the health and safety conditions, the company calls its employees on a roster basis. Therefore, currently, the company's operations are carried out with minimum staff.

On the other hand, even though the company is following all health and safety measures, customers are reluctant to visit the business premises due to the pandemic situation. However, flower plants suppliers are ready to supply plants to the company, with minimum human interventions. Considering the current situation, the company's management has now decided to apply an 'online delivery service' of flower plants to customers by investing in information technology.

As the Risk Manager of Super Plants Ltd, you are required to:

- i. Identify opportunities **and** uncertainties that may arise with the 'online delivery service' of the company.

(06 Marks)

ii. Based on the company's current situation, including the online delivery service to implement its operations, identify possible risks **and** dependencies as per the **FIRM** risk classification.

(08 Marks)

iii. Propose appropriate mitigating activities to overcome such risks you mentioned above in part (ii).

(06 Marks)

(Total 20 marks)

2. i. 'Enterprise Risk Management (ERM) overcomes the limitations of traditional risk management approach.' Elaborate on this statement.

(06 Marks)

ii. State the most appropriate risk identification technique(s) for the following two (02) scenarios **and** appraise the effectiveness of those techniques you mention under each.

a. An attempt to identify risks in the production process of a business organization.

b. An attempt to identify different types of risks in an ongoing project.

(08 Marks)

iii. 'Risk management will not be successful unless an organization's culture accepts risk management initiatives.' Briefly explain any three (03) components of a risk-aware culture, including how those are vital for a successful risk management.

(06 Marks)

(Total 20 marks)

3. i. Different risk exposures found in Sigma Company with their likelihood and impact are listed below.

Risk	Likelihood	Impact
1. Losses from theft and other damages may occur because the company's warehouse is located in a highly urbanized area in the city.	2	5
2. The company uses a low-cost chemical material for one of the key products, but the government has decided to ban it.	4	4
3. The company's Chief Financial Officer has decided to leave the company within a shorter period.	5	3
4. A key customer of the company is continuously delaying payments for invoices.	4	2
5. The government is considering the introduction of a new type of tax on all business firms in the industry.	2	1

Likelihood and impact where;

1-Very low

3-Moderate

5-Very high

2-Low

4-High

Based on the above information, you are required to:

- a. Identify the most appropriate risk management strategy to respond to each risk **and** state why you have selected such a strategy.

(05 Marks)

- b. Briefly explain the actions you can follow under each risk management strategy mentioned in (a) above.

(10 Marks)

- ii. 'The ultimate objective of all managers, including the risk manager, is increasing the value of the firm. However, the approach followed by the risk manager to increase the value of the firm significantly differs from other managers'. Do you agree with this statement? Explain.

(05 Marks)

(Total 20 marks)

4. i. What do you mean by 'credit risk' in international trade? State any two (02) remedies to avoid credit risk in international trade.

(04 Marks)

- ii. Ceylon Way is a group of companies which is controlled from Sri Lanka. This group has subsidiaries in the US, Japan, and India. Inter-company receivables and payables as at 31st March 2021 are listed in the following table.

Receiver	Payer	Amount
US	India	INR 285,000
Japan	US	USD 3,600
India	Japan	JPY 168,000
India	US	USD 1,400
Japan	India	INR 95,700

Sri Lankan Headquarters follow the multi-lateral netting policy and adopt the following exchange rates: LKR 1 = USD 0.0051; JPY 0.5553; INR 0.3670.

Based on the above information, compute and show net payments to be made by subsidiaries after netting off.

(10 Marks)

- iii. Many business organizations allow personal devices for work which is also termed the practice of bringing your own device (BYOD). However, this may create a new set of security risks. Explain such security risks.

(06 Marks)

(Total 20 marks)

05. i. 'When an organization implements internal controls, its management must make judgments about the impact and the likelihood of occurrence of risks'. Explain this statement with examples.

(10 Marks)

ii. At an investigation done by the internal controls team in an apparel organization, it was revealed that goods received by one of its plants are not recorded in the stock within the given period (the company policy is to enter the goods received into its system within 24 hours). Identify the types of controls to be implemented in this scenario.

(06 Marks)

iii. Provide examples of controls (two [02] each) that can be implemented to mitigate the financial, health and safety, Human Resources (HR), and Information Technology (IT) risks in an organization.

(04 Marks)

(Total 20 marks)

06. i. Assume that you are the Manager of the Internal Control team of a business organization, and you are asked to make a presentation to the board regarding the control environment of the company. Identify the key areas to be included in the presentation and the details to be presented under each key area.

(12 Marks)

ii. 'A sound control system provides only reasonable assurance regarding the achievement of organizational objectives.' Do you agree with this statement? Justify your answer.

(08 Marks)

(Total 20 marks)