

# UNIVERSITY OF COLOMBO, SRI LANKA

## FACULTY OF MANAGEMENT AND FINANCE

Bachelor of Business Administration Honours in Accounting (Semester VII) Examination –  
June, 2022

### ACT 4222 – Internal Control and Risk Management

Two (02) Hours

**This is an Open Book Examination**

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

**Answer Five (05) Questions in All including Question One (01)**

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1. Luck Farmers Ltd is a recently emerged company in North Western Province in Sri Lanka which offers high-quality vegetable and fruit seeds to farmers who engage in large-scale farming. In addition to the sale of seeds, the company provides consultancy services to the farmers interested in working with the company for a longer period. Beyond such services, the company directly purchases the harvest of vegetables and fruit from registered farmers or facilitates market opportunities.

At present, Luck Farmers has a robust supply chain to obtain quality seeds and a competent team of consultants to provide services. Thereby, more than 100 farmers are engaging in the Luck Farmers as loyal customers. Considering the current economic condition in Sri Lanka and the growth rate of Luck Farmers Ltd, the company's management is in the idea of gradually expanding the business into small and medium-scale farming and other provinces in Sri Lanka. However, the company needs to raise additional capital to obtain the required resources for this expansion.

Assume you are the Risk Manager of Luck Farmers Ltd, and you are required to:

- i. Identify the opportunities **and** uncertainties that may arise with the 'idea of expanding the business into small and medium-scale farming and other provinces in Sri Lanka'.

(06 Marks)

- ii. Based on the organization's current condition and the idea of expanding the business, identify the possible risks **and** dependencies as per the **FIRM** risk classification.

(08 Marks)

- iii. Propose appropriate activities to mitigate the risks mentioned above in part (ii).

(06 Marks)

**(Total 20 marks)**

2. i. 'Smart Way PLC' is a highly competitive and technology-oriented company that offers customized software solutions for corporate customers. The company is currently following a 'Silo-based' risk management approach, yet the risk management problems exist in the organization. At a recent management meeting, it was emphasized the importance of conducting an 'Enterprise Risk Management (ERM)' approach to overcome the limitations of the existing risk management approach. As the Chief Risk Officer, you have been asked to prepare a report on ERM to present at the next management meeting. Accordingly, your report should;

- a. State what does ERM refer to **and** briefly explain possible problems of the Silo-based risk management approach currently practiced in Smart Way PLC.

(10 Marks)

- b. Explain the possible actions under ERM to overcome the problems you mentioned above in part (a).

(06 Marks)

- ii. Organizations use 'risk register' to summarize their risk management processes. State the benefits and limitations of using a risk register.

(04 Marks)

**(Total 20 marks)**

3. i. Super Fit Traders is a reputed company that sells construction materials in Sri Lanka. The company's Risk Manager has identified its significant key risks as follows.

<b>Risk</b>	<b>Likelihood</b>	<b>Impact</b>
1. High cost of construction materials due to foreign exchange rate movements	7	5.5
2. Loss or theft of construction materials when they are placed in the store	2.5	8
3. Inability to satisfy debt repayments and obtain lower interest rates for new debts	5.5	5
4. Frauds and dishonest behavior of suppliers and employees	6.5	4.5
5. The changes in government regulations such as tax regimes and import restrictions	4	4

Likelihood and impact where;

**2**-Very low

**6**-Moderate

**10**-Very high

**4**-Low

**8**-High

Based on the above information, you are required to:

- a. Identify the most appropriate risk management strategy/strategies to respond to each risk.

(05 Marks)

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

(10 Marks)

- ii. Briefly explain the role of a risk manager in creating and protecting the value of an organization.

(05 Marks)

**(Total 20 marks)**

4. i. State the type of international trade risk applicable under each instance given below;

- a. Changing the exchange rate regulations in a country
- b. Distorting the figures in financial statements of a subsidiary company due to exchange rate movements
- c. Introducing trade prohibitions
- d. Not paying for goods by the importer on the due date

(04 Marks)

ii. “Netting” could be identified as a cash management strategy exercised by multinational companies. Discuss the pros and cons of “Netting”.

(06 Marks)

iii. Ceylon Textiles Ltd exports a bundle of textile items to the USA for an invoice value of \$50 million. If the spot rate is Rs. 380 per dollar and the forward rate is Rs. 378 per dollar, briefly explain the currency should Ceylon Textiles Ltd invoice (assume no legal constraints applicable to the selection of the type of currency).

(04 Marks)

iv. “Most of the time, the breach of information security/information systems security could happen due to employees’ misjudgment, carelessness and lack of knowledge”. Briefly explain the actions would you propose to reduce this matter.

(06 Marks)

**(Total 20 marks)**

5. i. Briefly explain the purpose of internal controls and identify five (05) types of internal controls that could be implemented in a business organization.

(06 Marks)

ii. Briefly explain two (02) types of controls each that could be implemented to mitigate finance, health and safety, Information Technology (IT) and infrastructure risks of a business entity.

(08 Marks)

iii. “A risk-aware culture will be achieved when all members of staff and management understand and accept the importance of adequate risk management”. Explain this statement.

(06 Marks)

**(Total 20 marks)**

6.i. Explain two (02) internal control frameworks a business organization could adopt and how such frameworks could support mitigation of risks of a business.

(06 Marks)

ii. Provide two (02) examples each for preventive, directive, detective and corrective controls.

(08 Marks)

iii. Identify the different roles of a business organization and explain their responsibilities towards implementing internal controls to mitigate the risks.

(06 Marks)

**(Total 20 marks)**