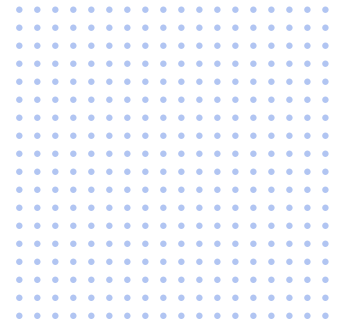




FOR CA FINAL EXAM PREPARATION

CA Final 2018 Question Paper · Paper 6A Risk Management

EXAM

CA Final

YEAR

2018

TYPE

Question Paper

SUBJECT

Paper 6A Risk Management

DATE

May 2018

Roll No.

Final New Syllabus
Paper - 6 A
Risk Management

MAY 2018

Total No. of case study Questions – 3

Total No. of Printed Pages – 24

Time Allowed – 4 Hours

Maximum Marks – 100

JNDK

7/12/18

Answer to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate who has not opted for Hindi Medium, his/her answers in Hindi will not be valued.

The Question Paper comprises three case study questions. The Candidates are required to answer any **two** case study questions out of **three**.

Answers to Multiple Choice Questions should be indicated clearly, by writing the option chosen (i.e. A or B or C or D) in capital letters along with reasoning for your choice.

In case, any candidate answers extra question(s)/sub-questions(s) over and above the required number, then only the requisite number of questions first answered in the answer book shall be valued and subsequent extra question(s) answered shall be ignored.

Wherever necessary, suitable assumptions may be made and disclosed by way of a note.

Working notes should form part of the respective answers.

QUESTION NUMBER – I

- (1) ABCD Ltd. is a diversified business group. The consolidated Balance Sheet, Statement of Profit & Loss and Cash Flow Statement of ABCD Ltd. prepared in analytical format are given below :

Customer Name : ABCD LTD	INR (₹) Thousands	
	31-Mar-16	31-Mar-17
	12 months	12 months

JNDK

P.T.O.

(2)

JNDK**Marks**

Balance Sheet		
CORE ASSETS		
Land and Buildings	249,572	249,594
Construction in Progress	2,744	7,592
Plant and Machinery	189,892	194,166
Furniture and Fixtures	72,952	71,580
Vehicles	14,339	11,788
Less : Accumulated Depreciation	– 307,198	– 320,054
TOTAL FIXED ASSETS	222,301	214,666
Stock	309,806	272,547
Trade Debtors	366,246	308,547
Finance Lease Receivables (Current)	18,728	28,702
Other Debtors	27,988	28,357
Cash and Near Liquid Funds	31,873	31,623
Prepayments	8,787	9,763
Less : Trade Creditors	– 217,121	– 230,476
: Other Creditors	– 153,728	– 126,892
Less : Dues to Related Companies	– 12,299	– 16,923
: Taxation	– 12,189	–8,617

JNDK

(3)

JNDK

Marks

OPERATING CAPITAL EMPLOYED	590,392	511,297
NON-CORE/NON-CURRENT ASSETS		
Long Term Lease Receivable	8,848	10,718
Investments in Subsidiaries/Associates	55,226	55,734
Dues From Related Companies	7,547	4,386
TOTAL NON-CORE/ NON CURRENT ASSETS	71,621	70,838
OVERALL CAPITAL EMPLOYED	662,013	582,135
CAPITAL STRUCTURE		
Ordinary Share Capital	20,000	20,000
Profit and Loss Account	98,278	61,549
Other Reserves	35,080	36,303
Contribution from Shareholders	202,248	202,248
Less : Intangibles	-12,112	- 9,620
TANGIBLE NETWORTH	343,494	310,480
Minorities	53,422	62,929
Provisions/Other Long Term Liabilities	61,790	56,445
TOTAL	115,212	119,374
EXTERNAL FINANCE		

JNDK

P.T.O.

(4)

JNDK**Marks**

Bank O/D and Short Term Loans	203,307	152,281
OVERALL CAPITAL EMPLOYED	662,013	582,135
CONTINGENT LIABILITIES	101,000	131,977
CAPITAL COMMITMENTS	52,500	50,000
PROFIT AND LOSS ACCOUNT		
Sales	1,446,791	1,469,762
Less : Cost of Goods Sold	-1,117,664	- 1,132,857
GROSS PROFIT	329,127	336,905
Less : Distribution and Selling Costs	- 156,049	- 160,370
: Administration Costs	-114,623	-106,887
OPERATING PROFIT	58,455	69,648
Share of Profit of Associate Companies	2,030	10,059
Other Income	24,819	13,703
PROFIT BEFORE INTEREST AND TAX	85,304	93,410
Less : Interest Expense	-7,619	- 4,777
PROFIT BEFORE TAX	77,685	88,633
Less : Taxation Charge	- 6,500	- 6,500

JNDK

(5)

JNDK**Marks**

PROFIT AFTER TAX	71,185	82,133
Minorities	-11,976	- 16,583
PROFIT AVAILABLE FOR APPROPRIATION	59,209	65,550
RECONCILIATION OF RETAINED PROFITS /(LOSSES)		
Profit Available for Appropriation	59,209	65,550
Less : Dividends Paid and Proposed	- 100,000	-101,056
Adjustment / Transfer (/to) /from Reserves	- 705	- 1,223
RETAINED PROFIT FOR THE YEAR	- 41,496	- 36,729
Profit and Loss B/Forward	139,774	98,278
TOTAL REVENUE RESERVES	98,278	61,549
CASH FLOW		
OPERATING CASH FLOW		
Operating Profit	58,455	69,648
Depreciation/Amortization Charges	29,421	32,767
ADJUSTED CASH FLOW FROM OPERATIONS	87,876	102,415
WORKING CAPITAL MOVEMENT		
(Increase)/Decrease in Stock	- 34,692	37,259

JNDK**P.T.O.**

(6)

JNDK**Marks**

(Increase)/Decrease in Debtors	9,421	-7,214
(Increase)/Decrease in Creditors	28,665	- 8,723
Other Net Working Cap Movement	0	0
NET CASH FLOW FROM OPERATIONS	91,270	123,737
Less : Taxation Paid	-1,660	- 10,072
Less : Interest Paid	- 9,652	- 4,688
NET FREE CASH FLOW FROM OPERATIONS	79,958	108,977
Less : Dividends Paid	- 105,361	- 58,087
Less : Other Cash Outflow	- 5,923	- 8,378
NET CASH FLOW BEFORE INVESTMENT GROUP AND FINANCE	- 31,326	42,512
CASH FLOW FROM INVESTMENT AND GROUP		
Net Cash from Fixed Assets	- 21,747	-25,562
Net Cash from Investments	14,746	13,995
Net Intra-Group Funds Flow	0	0
Others	30,059	19,236
NET CASH FLOW BEFORE EQUITY AND FINANCE ACTIVITIES	- 8,268	50,181

JNDK

(7)

JNDK**Marks**

CASH FLOW FROM EQUITY AND FINANCE ACTIVITIES		
Increase/(Decrease) in Equity	0	0
Increase/(Decrease) in Short Term Debt	5,766	– 51,026
Increase/(Decrease) in Long Term Debt	0	0
Others	873	595
NET CASH FLOW FROM EQUITY AND FINANCE ACTIVITIES	6,639	– 50,431
Increase/(Decrease) Cash and Near Liquid Funds	1,629	250
TOTAL	8,268	– 50,181

Additional Information [All amounts in ₹ '000s] :

Turnover comprises : Equipment and Automotive : 28680, Consumer

Products : 71400, Industrial Products : 29800 and Office Equipment : 17100.

Largest inventory item was trading inventory and finished goods, which towards 2017-end, decreased to 19100 (22200 as at 31st March, 2016).

Shareholders had purchased long outstanding government receivables, amounting to 4900 of a group company to improve its cash flows. Unused bank facilities as at 31st March, 2017 were 16800.

Sales growth of year 2017 is almost in line with the previous years. Trading inventory and finished goods as at 31st March, 2017 was 19100 (22200 as at 31st March, 2016).

JNDK**P.T.O.**

(8)

JNDK**Marks**

Based on the calculation of major financial ratios, prepare a brief analytical report deriving the financial risk involved. You can use various areas covering performance, profitability, working capital management, liquidity and cash flows, capital structure, etc.

Your answer should be supported with relevant workings.

[Financial Ratios : 5 marks; Analytical report for each area : 4 marks each, other areas : 5 marks] [Total : $5 + (5 \times 4) + 5 = 30$ Marks]

Multiple Choice Questions : Briefly explain the reasoning for your choice which is mandatory. Answer all of the following (2) to (21) – Each MCQ carries one mark.

**1×20
=20**

- (2) While uncertainty means the existence of more than one possibility, risk is a state of uncertainty where some of the possibilities may involve an undesirable outcome. Which one of the following statements correctly describes the above statement ?
- (A) One may have uncertainty without risk but risk without certainty.
- (B) One may have uncertainty without risk but risk without uncertainty.
- (C) One may have uncertainty without risk but not risk without certainty.
- (D) One may have uncertainty without risk but not risk without uncertainty.
- (3) In respect of an organization, **Reputation risk** means
- (A) Risk of possible financial loss to the organization.
- (B) Risk of a failure which may lead to violation of the regulatory requirements that the organization is supposed to comply with.
- (C) Risk of the organization's reputation in public view which is a key concern in engaged media and social media.
- (D) None of the above.

JNDK

(9)

JNDK**Marks**

- (4) The Probability is that Event A occurs, given that Event B has occurred. The conditional probability of Event A, given Event B, is denoted by :
- (A) $P(A|B)$ (B) $P(B|A)$
 (C) $P(A) + P(B)$ (D) None of the above.
- (5) If the risk manager concludes that a company's strategy is less effective in the market, then the company is said to face strategic risks. All of the following would be factor for such strategic risk, EXCEPT :
- (A) Shifts in customer demand (B) Increase in interest rates
 (C) A global entity entering the market (D) Technological changes
- (6) Which one is an external factor in respect of risks for an insurance company ?
- (A) Financial position (B) Machine failure
 (C) Staff Morale (D) Earthquake
- (7) If Risk rating is 5, then the risk is called
- (A) Severe (B) High
 (C) Moderate (D) Low
- (8) If $\text{Corr}(X, Y) = -1$, then X and Y have
- (A) Perfect positive correlation (B) No correlation
 (C) Perfect negative correlation (D) None of the above.
- (9) Which of the following statements is NOT true with respect to Risk Management ?
- (A) Risk management is as much about identifying opportunities as avoiding or mitigating losses.
 (B) Risk management can be described as 'coordinated activities to direct and control an organization'.
 (C) Risk management is an essential business activity for enterprises of all sizes.
 (D) Risk management is recognized as an integral component of good management and governance.

JNDK**P.T.O.**

(10)

JNDK**Marks**

(10) Code of conduct for employees would most likely be contained in which type of Operational Risk Management Policy ?

- | | |
|-----------------------------|--------------------------|
| (A) Departmental Policies | (B) High-Level Policies |
| (C) Human Resource Policies | (D) Operational Policies |

(11) In respect of an enterprise, **Knowledge risks** are associated with

- (A) Management and protection of knowledge and information within the enterprise.
- (B) Primary long-term purpose, objectives and direction of the business
- (C) On-going day to day operations
- (D) None of the above

(12) OECD has developed set of principles for better corporate governance. The principle of Disclosures and Transparency would NOT include :

- (A) Overseeing the process of disclosure and communications
- (B) Foreseeable risk factors
- (C) The financial and operating results of the company
- (D) Company Objectives and non-financial information

(13) RAROC is

- (A) Return on capital adjusted for inflation.
- (B) Risk-based profitability measurement framework.
- (C) Return on gilts
- (D) None of the above

JNDK

(11)

JNDK**Marks**

- (14) In respect of an exposure, Loss Given Default [LGD] refers to
- (A) The actual amount of loss
 - (B) The amount that is exposed to the default risk
 - (C) The loss likely to be suffered in the event of a default occurring in the exposure.
 - (D) None of the above
- (15) Gini coefficient is
- (A) One of the most popular index to gauge the rich-n-poor income-that is to measure inequality in income distribution.
 - (B) An index to measure the level of corruption perception.
 - (C) An index to measure the level of crimes, violence and military expenditure.
 - (D) None of the above
- (16) Enterprise risk governance framework would NOT normally include
- (A) Risk Limits
 - (B) Risk Management Procedures
 - (C) Risk Appetite Framework
 - (D) Risk Appetite Statement
- (17) Which of the following would NOT be included as a principle in determining the risk appetite of the company ?
- (A) Risk appetite is not a single, fixed concept.
 - (B) Risk appetite can be complex.
 - (C) Risk appetite needs to be measurable.
 - (D) Risk appetite is about identifying opportunities.

JNDK**P.T.O.**

(12)

JNDK**Marks**

(18) The risk manager would like to know the risk that refers to ineffective and unethical management of a company by its executives and managerial levels. The risk is known as :

- (A) Staffing Risk (B) Management Risk
(C) Strategic Risk (D) Governance Risk

(19) Which one of the following that a company would LEAST likely choose as a common risk management objective when framing the risk management approach ?

- (A) Enhance the level of risk maturity
(B) Allocate capital more efficiently
(C) Build safeguards against earnings-related surprises
(D) Achieve a better understanding of risk for competitive advantage

(20) The risk manager, in his approach, chose a method for structuring a group communication process so that the process is effective in allowing a group of individuals as a whole to deal with a complex problem. This method is BEST known as :

- (A) Scoring (B) Delphi Technique
(C) Judgement and intuition (D) Simulation.

(21) As per the Standards on Auditing issued by the ICAI, a risk resulting from significant conditions, events, circumstances, actions or inactions that could adversely affect an entity's ability to achieve its objectives and execute its strategies, or from the setting of inappropriate objectives and strategies is BEST known as :

- (A) Significant Risk (B) Business Risk
(C) Inherent Risk (D) Control Risk.

JNDK

(13)

JNDK**Marks****QUESTION NUMBER – II****About the Company**

XYZ Limited is a public limited company incorporated in the year 2003. It has the registered head office in Bhubaneswar, Odisha. The Company has iron ore mines situated in five places in the State. The main business of the Company is extraction and sale of iron ore to many iron and steel industries both inside and outside states.

The Company has decided to diversify its business in trading of shares. Also, the Company is considering the possibility of setting up a Non-Banking Finance Company. For these purposes, the Company is in the process of doing feasibility studies.

Risk Manager

The Company has approached you, being a senior Risk Manager to look into the proposals. The role performed by you would include :

- To gather regular risk management related information from external and internal sources.
- Identify the problems and provide possible solutions to the various issues arising in the risk management.
- To effectively manage specific risk circumstances.
- To monitor the risk of anti-money laundering (AML).
- To monitor the investment portfolio and to analyse the unfavourable movements.
- Advise and make recommendations to the management in the matters of identifying the risks and quantifying the same.
- Help the management in designing and implementing various risk management strategies and their related processes in the banking & investment portfolio and to suggest improvements.

JNDK**P.T.O.**

(14)

JNDK**Marks**

- Get updated with the advances happening in the relevant software technology.
- Have a detailed understanding and knowledge of the credit, operational and market risks of the portfolio and also the software tools used to assess them.
- Understand and reduce the exposures in financial risks by using strategies such as hedging, credit default swap, insurance etc.
- Proactively analyse the market trends for finding out opportunities in expanding the portfolio.
- Adhere to various laws, procedures relating to the financial operations.
- Gather various information relating to the operations of NBFC in India including credit risk management and the underlying Guidelines of RBI with respect to capital adequacy norms, provisioning etc.

Required by the Risk Manager

In order to have a better understanding of the risk factors involved thereon, the Risk Manager needs a better understanding on the following issues :

- (i) The purchase order for a script would be authorised by a manager. The risk manager is bothered about authorising the order for a wrong script, instead of the intended one by the manager. Thus, he is interested to learn the controls placed and if any weakness is found he wants to strengthen the same.
- (ii) A machine learning program dynamically responds to change in data / situation by changing the rules that govern the behavior and the algorithm “learns” from new data inputs and gets better over time. The risk manager tries to explore the possibility of employing a new software towards the same.

JNDK

(15)

JNDK**Marks**

- (iii) Calculation or measuring the loss in the value of the portfolio in a given period of time for a distribution of historical returns.
- (iv) The risk manager is interested to find out as to how the portfolio would fare during the period of a financial crisis. He is also interested to build the stress testing capabilities and to explore the ways of using them to meet the broader risk management and business objectives.
- (v) The rules and regulations existing in a foreign country and also the risk factors involved with reference to the investment climate of that country that are to be considered before buying shares of a foreign company.
- (vi) While applying for a bank loan for the expansion of the portfolio, the parameters of credit risk that the bank might consider and also the credit scoring model that might be applied by the bank, while approving such loan to the company. The Company would be offering some of its immovable properties as collateral to the proposed loan with the bank.
- (vii) The certainty equivalence is a guaranteed return that the management would accept rather than accepting a higher but uncertain return. The risk manager would like to explore the possibility of "certainty equivalent" technique.
- (viii) Effectively employing big data analytics in analysis of various transactions to study the patterns of investments and also the possibility of using block-chain technology in ensuring the veracity of the transactions.

You are appointed as a risk management consultant and you are expected to give your valuable inputs by answering the following.

JNDK**P.T.O.**

(16)

JNDK**Marks****(a) Multiple Choice Questions :****1×20****=20**

Answer all of the following – Each MCQ carries one mark

Choose the most appropriate answer from the answer options, and give brief reasoning for your choice.

- (i) The Risk Manager is trying to quantify the level of financial risk in the portfolio using VaR. Which of the following VaR methods draws a sample from the dataset and records its VaR ?
- (A) Historical Simulation (B) Delta-Normal Methods
(C) Monte Carlo Simulation (D) Bootstrap Simulation
- (ii) A measure of an investment's excess return, above the risk-free return, per unit of standard deviation is known as
- (A) Beta (B) Jensen Index
(C) Sharpe Ratio (D) R Squared
- (iii) Which one of the following statements is NOT true with respect to correlation coefficient properties ?
- (A) It does not have any units.
(B) Correlation Coefficient value ranges from -1 to +1.
(C) It is a measurement of deviation from the mean for one variable.
(D) It measures the strength of linear relationship between two random variables.
- (iv) The Manager is considering to employ VaR to quantify the level of financial risk.
- Which one of the following is NOT a limitation of VaR ?
- (A) not sub-additive
(B) uninformative of tail losses
(C) can encourage diversification
(D) can create perverse incentives structures

JNDK

(17)

JNDK**Marks**

- (v) As per BIS capital adequacy rules, banks should operate with a holding period of :
- (A) one week (or 5 business days) (B) one week (or 7 days)
 (C) two weeks (or 10 business days) (D) two weeks (or 14 days)
- (vi) Real-time risk is defined as the probability of instantaneous or near-instantaneous loss, and can be due to flash crashes, other market crises, malicious activity by selected market participants and other events. Which of the following would CHIEFLY be the cause of such a risk in a financial market ?
- (A) Deployment of poorly tested algorithm
 (B) A malicious activity done by a hacker on a computer belonging to a financial services company.
 (C) Information timing and source risk
 (D) Risk of ineffective current market study on financial markets
- (vii) While analysing the credit risk, which one of the following internal factors would NOT be considered by the bank as a credit risk in its transactions ?
- (A) Ignoring the purpose for which loan was sought by the customer.
 (B) Concentration of credit in particular geographical locations or business segments.
 (C) Fluctuation in Interest Rates.
 (D) Excessive lending to particular industry is subject to cyclical fluctuations.
- (viii) The Manager came across "Expropriation Risk", while analysing various risk scenarios. It refers to :
- (A) Unanticipated increase of tax rates applicable for MNCs in the host country

JNDK**P.T.O.**

(18)

JNDK**Marks**

- (B) Business of MNCs takeover by host country without or with inadequate compensation
- (C) Prevention of repatriation of earnings of MNCs to their countries
- (D) High level of red tapism and corruption in host country
- (ix) Risk measures are expected to correctly reflect diversification effects and facilitate effective decision making. This is achieved in
 - (A) Stress testing measures
 - (B) Coherent risk measures
 - (C) Full revaluation methods
 - (D) VaR conversion methods
- (x) In the context of credit risk for banking business, the trade-off between risk and return does NOT involve taking the following decision :
 - (A) Placing of credit cap or limit for each customer
 - (B) Acceptance or rejection of customer's request
 - (C) How much compensation should be added while pricing the product.
 - (D) How much credit risk should be accepted in return of decrease in business.
- (xi) According to RBI guidelines issued with respect to CDS, the credit events specified in the CDS contract may NOT cover
 - (A) Obligation deceleration
 - (B) Repudiation/moratorium
 - (C) Bankruptcy
 - (D) Failure to pay
- (xii) The Manager is looking for a long-term secure technology to help in settlement of contracts which ensures proper validation. Which of the following would you suggest him to implement ?
 - (A) Big Data Technology
 - (B) An ERP with built-in validation rules and Access Control Technologies
 - (C) Artificial Intelligence
 - (D) Distributed Ledger Technology

JNDK

(19)

JNDK**Marks**

- (xiii) The manager has decided to employ stress testing. Recently, it has gained the attention of the senior management of the company CHIEFLY because of
- (A) governance requirements demanded by regulators
 - (B) measuring and monitoring usage of risk limits
 - (C) transaction level pricing and decision support
 - (D) communication of risk exposure across the organisation
- (xiv) Co-variance is
- (A) the square root of Variance.
 - (B) the weighted average of possible values.
 - (C) basically the deviation from the mean.
 - (D) the relationship between deviations of two variables.
- (xv) Which one of the following is NOT a way to calculate the credit risk component as prescribed by Basel II ?
- (A) Credit Risk Mitigation
 - (B) Control Risk Mitigation
 - (C) Standardised Approach
 - (D) Internal Rating based approach
- (xvi) The manager likes to place more importance to recent observations and provide geometrically declining weights on past observations. For this purpose, he WOULD most like use
- (A) Loss Given Default model
 - (B) Exponentially Weighted Moving Averages model
 - (C) Altman Z Score model
 - (D) Generalized Autoregressive Conditional Heteroskedastic model
- (xvii) Credit scoring models are mainly used by the credit rating agency to determine the credit worthiness of an individual. Which of the following is NOT a credit scoring model ?
- (A) FAKO credit score
 - (B) MICRO Score
 - (C) PLUS Score
 - (D) FICO Score

JNDK**P.T.O.**

(20)

JNDK**Marks**

(xviii) Which method under a machine learning program would MOST primarily deal with variables that are quantitative in nature ?

- (A) Regression methods (B) Bayesian methods
(C) Analytical methods (D) Inferential methods

(xix) In the context of credit risk management techniques, conditions imposed by the lender on the borrower that certain activities will or will not be carried out and which can be affirmative or negative in nature are called

- (A) Letter of Credit
(B) Due Diligence
(C) Well defined credit approval matrix
(D) Covenants

(xx) The banks while considering the proposal for a wholesale credit, the detailed appraisal would NOT include

- (A) Risk identification, risk allocation and risk mitigation
(B) Covenants/conditions to be stipulated
(C) Internal credit rating model
(D) Nature of Security and its enforceability

(b) Descriptive Questions

(i) There is a 30% probability of increase in a particular share price on Monday. If that share price increased on Monday, there is a 20% probability that it will increase on Tuesday. If the price did not increase on Monday, there is a 70% probability that it will increase on Tuesday. Give your workings.

4

Using Baye's Theorem, calculate the probability of increase in that share price on Monday, if the price increased on Tuesday.

(ii) Briefly explain how big data analytics help in improve the existing processes in Anti-Money Laundering operations.

4

JNDK

(21)

JNDK**Marks**

- (iii) Calculate the compounded Geometric Mean rate of return for the previous two year-period. The stock had a return for the three years as follows:

2

Year	2016	2017	2018
Return	8%	-5%	15%

- (c) (i) The risk manager would like to have your opinion in deciding between VaR and Expected short fall method as a risk measure. Give your advice explaining the reasons thereof.
- (ii) What are the advantages of Monte Carlo Simulation ?
- (iii) If investment proposal is ₹ 50,00,000/- and risk-free rate is 6% p.a., calculate Net Present Value under certainty equivalent technique, given the following information:

3**3****4**

Year	Expected Cash Flow (in ₹)	Certainty Equivalent Coefficient
1	12,00,000	0.87
2	14,00,000	0.84
3	18,00,000	0.93
4	27,00,000	0.82

- (d) (i) The Manager is looking at the viability of Credit Default Swap contracts. He learnt that it has similarities with credit insurance. Discuss the differences between CDS and credit insurance.
- (ii) In the present days, banks face a lot of problems in collections from customers resulting in increase of NPAs. Hence the banks make attempts to mitigate the risks of lending to unworthy borrowers by reviewing their five C's of Credit. Briefly explain them.

6**4****JNDK****P.T.O.**

(22)

JNDK**Marks****QUESTION NUMBER – III**

- (1) You have been recently appointed as Chief Risk Officer of a company which is in Steel Castings business. Name of the Company is ABC Electro Steel Castings Ltd. [in short, ABC]. **30**

You have been told that ABC is fully committed to strengthen its risk management capability on continuous basis in order to protect and enhance shareholder value. You have been told that the risk management framework ensures compliance with the requirements of amended Clause 49 of the Listing Agreement. The framework establishes risk management processes across all businesses and functions of the Company. These processes are periodically reviewed to ensure that the Management controls risks through properly defined framework.

You are also made aware that the Company has already undertaken an extensive Risk Management effort that includes introducing Risk Management Manual, compiling a comprehensive profile of the key risks to the Company, identifying key gaps in managing those risks and developing preliminary action plans to address those risks. This effort accomplishes the following goals :

- responds to the Board's need for enhanced risk information and improved mitigation plan;
- provides the ability to prioritize, manage and monitor the risk in the business; and
- formalizes the explicit requirements for assessing risks on an ongoing basis, including an effective internal control and management reporting system.

JNDK

(23)

JNDK**Marks**

You are also given information that the Company uses raw materials to manufacture the steel castings. It is faced with the threat of pressure on margins on sales. To counter the threat, the Company has taken various steps which include backward integration which comprises coal mines and iron mines, and brownfield expansions, e.g. sinter plant, sponge iron plant, coke oven plant, power plant from waste head recovery. It also set up an R & D to expand its manufacturing capacities with a view to control costs.

You came to know that the Company is ISO-140001-2004 certified and is adhering strictly to the emission norms applicable for the industry.

You are also told that with the thrust given by Government of India on water and water related projects and with the estimated growth in water requirement, the demand of DI Pipes is expected to grow substantially and the Company is confident of retaining its market share.

Labour relations have been excellent throughout the year in spite of number of unions. It is the result of such cordial and harmonious relations that not a single man-day has been lost in the last 8 years. The Company believes that labour relations will continue to remain excellent.

The Company has also Credit insurance policy.

Now, you have been asked to give a report to the Company's Management, which should contain the key risks affecting the Company, and the measure than can be taken to mitigate such risks.

Multiple Choice Questions (2) to (6) : *Briefly explain the reasoning for your choice which is mandatory.*

- (2) An excess payment made to a vendor, which is accounted correctly, would be categorized under which of the following risks ?

2

- | | |
|------------------------------|--------------------|
| (A) Financial Reporting risk | (B) Legal risk |
| (C) Reputation risk | (D) Financial risk |

JNDK**P.T.O.**

(24)

JNDK**Marks**

- (3) In Information Technology General Controls, under change management, the risk of incorrect change is NOT mainly due to 2
- (A) Change being wrongly conceived by the user groups
- (B) Change control audit trail not maintained
- (C) Change is wrongly executed
- (D) Change being carried out without approvals
- (4) Annual Report of the Board of Directors must include a statement indicating the development and implementation of a risk management policy for a company. This is mandated by 2
- (A) SEBI through 'Issue of Capital and Disclosure Requirements Regulations'
- (B) Information Technology (Amendment) Act, 2008
- (C) Companies Act, 2013
- (D) Prevention of Money Laundering Act, 2002.
- (5) While taking a decision, the category risk profile bucket that would most likely to escape attention of the Management is 2
- (A) High Impact-Low Probability (B) Low Impact-Low Probability
- (C) High Impact-High Probability (D) Low Impact-High Probability
- (6) Governance risks mean significant deficiencies that can impact the reputation, existence and continuity of the organization. Such deficiencies would NOT occur because of 2
- (A) Inappropriate practices adopted by the Board
- (B) Inability of the Board to identify trivial risk facts that can impact business continuity
- (C) Failure of the Board to direct and control the organization
- (D) Collusion of management to override significant internal control mechanism causing financial losses
- (7) List at least ten tasks in respect of the role of the risk manager. 5
- (8) Describe the usefulness of 'Artificial Intelligence'. 5

JNDK