

ESG

RISK MANAGEMENT

QUESTION PAPER

Total No of question- 6

Total Marks- 50 marks

Total time- 2 hours

Q1) CDS limited is an unlisted public company engages in manufacturing of textile products. Following is the financial information obtained from its latest financial statement for the year ended 31st March 2023

a) Authorised Share Capital	100 cr
b) Paid up capital	30 cr
c) Reserve and surplus	10 cr
d) Turnover	150 cr
e) Outstanding loan from nationalized Bank	110 cr
f) Outstanding security deposits	22 cr

Based on the above facts, answer to the following questions, analyze whether CDS limited is required to appoint an internal auditor? Substantiate your answer with relevant provisions of law. Further, the company wants to appoint Mr.M as the internal auditor of company who has been employed with company as Sr.manager(finance and Accounts).Check, whether his appointed as internal auditor would be valid

Q2) Every business face various types of risk. Risk may be broadly into two categories like financial and non-financial. List down various types of risk that a business face during the course of business

Q3) Hardware Solutions Ltd (HSL) offers to its client's hardware solutions, including chip manufacturing, planning and integration for a variety of uses. In a recently concluded Board meeting, while reviewing risk management practices of the Company, one of the Board members indicated about increased threat of new and severe non-financial risks which are now challenging basic assumptions about control effectiveness. For example, HSL so far has relied on automation to speed up processes, lower costs, and reduce manual errors. At the same time, the risks of large-scale breaches and violations of data privacy have increased dramatically, heightening during the COVID-19 crisis as digitization accelerated substantially. With less risk of manual errors but greater risk of large-scale failures, HSL will require to adjust their risk appetites and associated controls to reflect evolving risk profiles

The Chief Risk Officer (CRO) of HSL agrees with the view of the Board member. He informed the Board that risk management strategies require revision and it should also cover the event of a major control breakdown, so that HSL is able to switch quickly to crisis- response mode, guided by an established Business Continuity Plan.

He further agreed that HSL has done little to prepare for crisis, seemingly taking an attitude that it won't happen here and hence risk culture also need to be improved. There is a consensus that HSL will need to build crisis-preparedness capabilities systematically. As the COVID-19 crisis has demonstrated, companies with well-rehearsed approaches to manage through a crisis have been more resilient to shocks. The CRO further briefed the Board that preparation in this respect would involve identifying the possible negative scenarios unique to HSL and the mitigating strategies to adopt before a crisis hits. That includes periodic simulation involving both senior management and the Board. There is a plan to maintain and periodically update a detailed crisis management register. Their strategies would typically include details on when and how to escalate issues, preselected crisis-leadership teams, resource plans and road maps for communications and broader stakeholder stabilization.

The internal auditor has also pointed out several control weaknesses and not appropriately recognising risk appetite in the context of control culture of the Company. In the background of aforementioned facts, answer the following questions

- a) From a perspective of Companies Act, 2013 and SEBI regulations, discuss in detail the responsibility of Board of Directors relating to risk management [5 Marks]
- b) The Chief Risk Officer accepts that the Company has done little to prepare for the crisis. What type of crisis is HSL currently experiencing ? And also narrate other crisis, which the Company may encounter in future. [5 marks]
- c) Explain Business Continuity Plan and its key components. [5 Marks]
- d) To protect against malicious threats or building a secure infrastructure for data storage for HSL, outline the Cyber Security Risk Management Process [5 Marks]

Q4) The Punjab National bank scam, one of the largest banking fraud in India, involved fraudulently issuance of Letters of undertaking and Letter of Credit at PNB branch in the Mumbai, allowing Nirav Modi and his associates to obtain credit from overseas branches of other Indian banks. List down the various drawbacks in PNB scam and mis-governance

Q5) Allgood Ltd, a listed company, announced the appointment of Sumer, as the Company's executive director. Despite opposition by few shareholders, the management offered justifications for the new structure to be more independent and investor friendly. It indicated that foreign investors were optimistic about the future of the Company and expected better financial results. The Company has been actually witnessing and struggling to address certain corporate governance challenges.

A small shareholder filed a law suit against the Board of Directors' misuse of corporate funds.

Rishi, the present Chairman and CEO, was working with the Company since last sixteen years and was a close family friend of Promoters. His leadership style being democratic, he was liked and praised by everyone. He was often found meeting people at all levels within the organisation and called for trying new things. His philosophy diminished conflicts and tensions in pursuit of goal setting and achieving. He believes that as long as dividend is paid to shareholders and earnings per share increases, the market values the stock.

To address the changing business situations and the perception of the various stakeholders, Rishi had a detailed discussion with Sumer, to identify the further course of action, as Sumer had experience in managing crisis. Both of them evaluated various aspects threadbare and concluded that they should appoint some professional firm, who would do a detailed review and suggest the way forward to address these issues. In consultation with other directors and senior management, they appointed Mangal & Co., a consulting firm, to evaluate the present situation and suggest the best practices to mitigate these issues

The consultants were provided with the following shareholding pattern as on March, 31, 2024 :

Type of Shareholder	Holding %
Promoters	51.60%
Mutual funds	7.25%
Domestic Financial Institution and Banks	24.75%
Foreign institution Investors	10.40%
Corporate Bodies	4.60%
Individuals	1.40%

Mangal & Co., performed a detailed evaluation of the Company's process and procedures, including its corporate governance practices and suggested that the Company should strengthen the role and position of a Company Secretary, who would not only be a focal point for the governance aspects, but also assist in the risk management process. Develop a robust system of internal controls and internal audit, which would support the management and also have a crisis management plan, which would help the Company to prepare a strategy in identifying and responding to threats. In the background of the above facts, answer the following :

- i) Explain the risks associated with governance in case of such corporates [5 Marks]
- (ii) Outline the role of Company Secretary in risk management [5 marks]

Q6) Explain the Fraud risk and the methodology to manage the Fraud risk in an organization