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Sanjay Saraf Educational Institute Pvt. Ltd.
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CA FINAL

RISK MANAGEMENT

IN-HOUSE

CASE STUDY SERIES

-By Sanjay Saraf Sir

Case Study 24 Answers

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Multiple Choice Questions

Answer

1. **Answer C.**
2. **Answer B.**
3. **Answer C.**
4. **Answer D.**
5. **Answer D.**

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Descriptive Questions

Answer

6. Whether it is a public firm, a private firm or a voluntary-sector organization, each faces risks in the backdrop of an uncertain environment. In each organization, the brew of its unique circumstances, history and technology leads to various ideas about risk. The finance managers involved in the budgeting process therefore might have different perceptions about the risks that they are facing. Consequently, not all financial, operational, political and personal risks are incorporated into the budgeting process. Risks related to the process of budgeting and the resulting content of the budget have been categorized in these three forms: risks modeled; risk considered and risk excluded.

Risk modeled budgets included a descriptive model of varying consequences based on assumptions. Risk considered budgets occurred where organizations looked at how open their organizations were to environmental events in which the budgetary system may have adopted devices such as probability and sensitivity analysis to deal with risk. In the risk excluded form, organizations saw the budgetary system as a closed system that was protected from the external environment. Here, risk was explicitly excluded from the budget and was managed in some other way.

7. The process of budgeting in all four cases was characterized as risk considered, although no manager-in any of the four cases-suggested any calculation or use of probabilities.

The contents of budget documents were risk excluded, from the budget. There was on exception in the public-sector case C, where a total organizational perspective was taken. There was evidence in C of risk considered processes in the papers prepared for the police authority in its decision about the precept and in the reserves maintained by C for unpredictable operational and pension contingencies.

The internal and external transfer of risk was observed in each of the four cases. In A, risk transferred along the supply chain from the suppliers and sequencing the customer as A assumed responsibility for ordering from suppliers and sequencing the customer's assembly line.

In B, risk transfer was evident between the sales and finance departments as the standard manufacturing cost came under pressure to be "massaged" so that product cost did not impede the task of winning sales.

In C, risk transfer was evident between government and the police force as restricted budgets and an unfounded pension liability reduced central government's financial exposure.

In D, risk transfer from the public to social care agencies was evident in the "social fantasy" of charitable bodies being held responsible for solving wider problems in society. A residual risk was evident that was not contained in budget documents. Managers "held" this risk, enabling others to work within a set of assumptions. In A, this was achieved by close working relationships with the customer and A's technology and logistics partners.

In B, risk holding involved closely guarding financial information from employees who may have used it to argue against downsizing and redundancies.

In C, there was an implicit reliance on the multi-skilling and the flexibility of individual police officers and their ability to cope with serious crimes and incidents that might occur.