

MAKERERE UNIVERSITY BUSINESS SCHOOL
FINAL EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE IN ACCOUNTING OF MAKERERE
UNIVERSITY AY 2024/2025

COURSE NAME: Risk Management & Forensics in Accounting
COURSE CODE: BSA3211
SEMESTER: Two

YEAR OF STUDY: Three
DATE: May 2, 2025
TIME: 2:00PM – 5:00PM

Instructions:

1. Section A has one compulsory question carrying 25 marks.
 2. Section B has four questions and only three are to be answered. Each question carries 25 marks.
 3. Write all your answers in the answer booklet provided.
 4. Please, read further instructions on the answer booklet before answering any question.
-

SECTION A (Compulsory)

Question One (Multiple choice questions i to xxv carry one mark each. Select and write the correct option in the answer booklet).

- i) What is the definition of risk?
 - A. The probability of an adverse event occurring
 - B. The potential for positive outcomes
 - C. The likelihood of achieving goals
 - D. The possibility of loss or harm

- ii) Which of the following is a category of risk?
 - A. Financial risk
 - B. Operational risk
 - C. Market risk
 - D. Investment risk

- iii) Which of the following is NOT a business risk category?
 - A. Strategic risk
 - B. Operational risk
 - C. Financial risk
 - D. Corporate responsibility risk

- iv) What is a source of business risk?
 - A. Market competition
 - B. Employee behavior
 - C. Technological changes
 - D. All of the above

- v) Which of the following best describes risk attitudes in an organization?
 - A. Risk attitudes reflect the organization's willingness to take on risk for potential gain
 - B. Risk attitudes are determined by the amount of capital available to the company
 - C. Risk attitudes are primarily shaped by external competition

- D. Risk attitudes focus only on financial risks
- vi) Which of the following represents a risk and opportunity concept?
- A. A risk always leads to negative outcomes
 - B. Opportunities should not be considered when managing risks
 - C. Risk can create opportunities for growth or improvement
 - D. Risks can only be avoided, not turned into opportunities
- vii) Why is risk measurement important?
- A. To reduce all potential risks
 - B. To compare risks across different industries
 - C. To quantify the potential impact of risk on the business
 - D. To eliminate all risk from business operations
- viii) Which of the following is a tool for analyzing risk?
- A. SWOT analysis
 - B. Monte Carlo simulation
 - C. Risk register
 - D. All of the above
- ix) What does the risk-return trade-off refer to?
- A. The idea that all risks are acceptable as long as there is a return
 - B. The relationship between the potential risk and the expected return
 - C. The balance between financial risk and operational efficiency
 - D. None of the above
- x) Why is risk management necessary in an organization?
- A. To eliminate all risks from the business environment
 - B. To protect the company from financial losses and reputational damage
 - C. To ensure that risks are not discussed among employees
 - D. To focus only on minimizing operational risks
- xi) Who is primarily responsible for managing risks in an organization?
- A. The risk management team
 - B. Senior management and the board of directors
 - C. External auditors
 - D. Frontline employees
- xii) What is the first step in the risk management process?
- A. Identifying risks
 - B. Monitoring risks
 - C. Developing risk mitigation strategies
 - D. Risk communication

- xiii) Which risk management strategy involves accepting the risk without taking any action to reduce it?
- A. Risk avoidance
 - B. Risk reduction
 - C. Risk transfer
 - D. Risk retention
- xiv) What is the purpose of risk auditing?
- A. To eliminate all risk from the organization
 - B. To evaluate the effectiveness of risk management processes
 - C. To monitor competitors' risk management practices
 - D. To determine the financial stability of the organization
- xv) Who is responsible for identifying and monitoring risks within an organization?
- A. Risk committee
 - B. Employees only
 - C. External auditors
 - D. Government regulators
- xvi) Which of the following is a purpose of diversifying risk?
- A. To eliminate all types of risks
 - B. To spread risk across different assets or strategies to minimize impact
 - C. To ignore risk altogether
 - D. To focus on a single high-return investment
- xvii) What is the primary goal of embedding risk in an organization?
- A. To segregate risk management from other business processes
 - B. To integrate risk management into the culture and operations of the business
 - C. To focus only on financial risks
 - D. To outsource risk management
- xviii) Which of the following is a key component of the fraud management lifecycle?
- A. Fraud detection
 - B. Fraud prevention
 - C. Fraud mitigation
 - D. All of the above
- xix) Which theory is used to explain the motivation behind fraud?
- A. Fraud Triangle
 - B. Risk-Return Theory
 - C. Supply Chain Theory
 - D. Equity Theory
- xx) Which of the following is a motivational factor contributing to fraud?
- A. Pressure to meet financial goals
 - B. A perceived opportunity to commit fraud

- C. Rationalization of unethical behavior
- D. All of the above

xxi) What is a red flag indicating potential fraud?

- A. Unexplained lifestyle changes of employees
- B. Lack of proper documentation for financial transactions
- C. Changes in internal controls
- D. All of the above

xxii) What is the primary goal of a fraud policy in an organization?

- A. To minimize financial transactions
- B. To outline procedures for detecting, reporting, and responding to fraud
- C. To eliminate all employees involved in fraud
- D. To focus on external fraud only

xxiii) Which of the following is a common type of occupational fraud?

- A. Asset misappropriation
- B. Insider trading
- C. Cybercrime
- D. Money laundering

xxiv) What is the primary function of internal controls in preventing fraud?

- A. To monitor employees' behavior
- B. To restrict access to sensitive financial information
- C. To reduce the chances of fraudulent activities occurring
- D. To punish employees who commit fraud

xxv) What is the role of forensic accounting in fraud detection?

- A. To investigate financial statements and transactions for signs of fraud
- B. To create financial reports for tax purposes
- C. To oversee risk management processes
- D. To provide tax advice

SECTION B (Answer any THREE questions)

Question Two

Zy Bank Ltd is a mid-sized commercial bank in Uganda with over 30 branches and a strong presence in retail and SME banking. The bank has experienced rapid growth since its founding in 2005, driven by innovations in mobile banking, business loans, and digital payments. However, in the financial year 2024, Zy Bank Ltd reported a 15% decline in net profits and a rise in regulatory and customer concerns. An internal investigation revealed several sources of business risks:

- The bank expanded aggressively into the SME lending market but failed to implement adequate credit assessment measures. As a result, a large portion of loans defaulted, leading to losses of over UGX 3.2 billion.
- An employee was found to have manipulated internal systems to siphon funds. In addition, repeated system outages during business hours slowed down services and impacted customer experience.
- Zy Bank held foreign-denominated bonds that lost value due to currency depreciation and sudden interest rate changes, resulting in unrealized investment losses.
- A phishing attack exploited weaknesses in the bank's digital security, leading to a breach of over 2,000 customer accounts. Although no direct funds were lost, the attack damaged public trust and reduced online banking usage.
- The central Bank (Regulatory body) introduced new Know Your Customer (KYC) and Anti-Money Laundering (AML) rules in 2024. Zy Bank failed to meet the deadlines for implementation, leading to temporary suspension of new account openings and regulatory scrutiny.
- Following the cyberattack, many customers rushed to withdraw their savings out of fear, triggering a liquidity shortfall. The bank was forced to borrow on the interbank market at high interest rates.

Required:

- a) Identify and explain six sources of business risk faced by Zy Bank Ltd. Support your answer with specific examples from the case. [6 Marks]
- b) Describe the impacts of these risks on Zy Bank's financial and operational performance. [6 Marks]
- c) Suggest strategies which should be implemented by the bank to mitigate similar risks in the future. [5 Marks]
- d) Explain the term "risk attitude" in an organization. Briefly describe the following risk attitudes:
 - i) Risk Averse
 - ii) Risk Neutral
 - iii) Risk Seeking[8 Marks]

[Total=25 Marks]

Note: For parts a, and b, use a table showing the risk type, source of risk and impact

Question Three

- a) Describe the elements of the risk management process. How does each element contribute to managing organizational risk? [10 Marks]
- b) Explain the role of risk auditing in evaluating risk management processes. [15 Marks]
- [Total=25 Marks]

Question Four

- a) Describe warning signs of fraud (red flags), including at least:
- i) one behavioural red flag,
 - ii) one HR-related red flag, and
 - iii) one "other" red flag. [6 Marks]
- b) List and briefly explain the responsible parties for fraud prevention, detection, and response in an organization. [10 Marks]
- c) Describe ways in which fraudsters conceal their schemes. [9 Marks]
- [Total=25 Marks]

Question Five

- a) Briefly explain the difference between forensic auditing and traditional financial auditing. [5 Marks]
- b) You have been engaged to conduct a forensic audit of a government agency following whistleblower allegations of procurement fraud. Draft an outline of your forensic report, detailing the key sections and what each section should contain. [10 Marks]
- c) Compare and contrast reactive vs proactive forensic investigations, and explain when each approach is appropriate. [10 Marks]
- [Total=25 Marks]

End of the question paper