

Paper P1

AAPOC

The Accountancy & Audit Profession (Org.)
Council

The Sudanese certified Accountants

June 2025 Session

Professional Level - Essential

Governance, Risk and Ethics

Date: 1 July 2025

Time Allowed:- 15 Min. For planning And Reading . 3 Hours for Writing.

Section A – This ONE question is compulsory and MUST be attempted

Section B – TWO questions ONLY to be attempted

Do not open this Questions paper unless instructed by the invigilator.

Do not take this questions paper out of the exam hall.

The Accountancy & Audit Profession (Org.) Council

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Section (A)

Time allowed: 3 hours 15 minutes

This question paper is divided into two sections:

Section A – This ONE question is compulsory and MUST be attempted

Section B – TWO questions ONLY to be attempted

Do NOT open this question paper until instructed by the supervisor.

This question paper must not be removed from the examination hall.

Section (A):

This ONE question is compulsory and MUST be attempted

ZMS Bank is one of the largest operating banks with a high market capitalization. At the end of 2021, it was revealed that branch managers had secretly created bank accounts and credit cards in the names of existing customers without their knowledge, and charged these customers fees for opening additional, unwanted accounts. It was discovered that branch managers were receiving bonuses for achieving sales targets, and lured by promises of large bonuses, some managers were willing to do anything to achieve the desired number of sales. Branch employees were willing to agree to this manipulation for fear of losing their jobs and the promise of promotions if they did not challenge the instructions of their direct managers. Funds were transferred from customer accounts to new accounts without their consent, Customers were charged fees for insufficient funds or incurred lost interest due to the low balance in their original account. In many cases, the customer was unaware of the transactions being conducted on their behalf. This led to the opening of more than a million fake accounts that were never authorized by individual customers.

Branch employees also used a database to identify customers who had been pre-approved for credit cards and then applied for the card without their consent.

Over a period of three years, managers trained bank employees on how to inflate sales figures by creating fraudulent bank accounts and credit cards.

Regional officials pressured bank managers to meet their weekly account opening quotas and sell customers additional benefits, such as overdraft protection. The constant pressure to meet targets encouraged manipulation and ethical violations. ZMS Bank's fake accounts generated exorbitant fees and allowed bank employees to increase their commission figures and generate more profits for themselves in the process. The managers' motivation was to set unrealistic sales quotas, and their selfish motives meant they would ignore customer complaints. As long as sales targets were met, they believed the outcome would be a win-win, with bonuses for themselves and fees for ZMS Bank. Managers pay insufficient attention to the potential reputational risks to the bank that could arise from the discovery of their fraudulent activities. The problem emerged when defrauded customers began noticing unexpected charges or receiving unsolicited credit or debit cards in the mail. Initially, individual complaints were resolved internally, at the branch level, to appease customers who discovered the irregularities. This prevented awareness of the scale of the complaints and kept the scandal out of the public eye. The systemic problem only became apparent after an internal investigation into why a large number of customers were leaving ZMS Bank. The investigation revealed that the bank's customers were turning to alternative banks, believing their accounts would be safer. Following the internal investigation, the bank dismissed approximately 1,750 employees (approximately 2% of the total workforce) and held them accountable for unauthorized and unethical behavior. It also emerged that, during a three-year period, one employee, invoking ZMS Bank's whistle blowing procedures, revealed that he had been instructed by his manager to manipulate transactions and misrepresent the bank's performance. ZMS Bank's external auditors submitted a report to the regulator, categorically rejecting the whistleblower's allegations. The regulator has now revealed that the summary report it received omitted key documents and evidence, affecting its ability to further investigate the matter.

ZMS Bank's CEO, who also serves as Chairman of the Board, issued a press release stating: "Our entire culture revolves around what is right for the customer. We prioritize ethical behavior and will continue to discipline or dismiss employees

who fail to provide good customer service. We have always managed risks well, particularly credit and market risks, which can be measured and monitored. However, the risks of unethical business practices, which pose operational, regulatory, and reputational risks to the bank, are difficult to manage. The Board was not aware of the employees' actions. Branch managers carried out these transactions without the Board's approval, and therefore the Board cannot be held responsible." Institutional investors, who own 80% of ZMS Bank's shares, are upset that the bank is now facing significant fines, its share price has plummeted, and its market share has been eroded by competitors exploiting the negative impact ZMS Bank's reputation has had on its unethical behavior. They also expressed disappointment at the lack of full transparency in reporting. The Nomination Committee reports never disclosed the selection of non-executive board members by current executives. The Remuneration Committee reports always showed a single total compensation figure for each non-executive member, so investors were unaware that the total remuneration included a performance-based bonus at ZMS Bank. Shareholders have demanded a general meeting to discuss the unethical behavior that occurred. In particular, they want to hear the CEO explain how he allowed unauthorized accounts to continue to be created without oversight for three years.

Required:

(a) Using the information from the case, identify and analyze the internal control failures that led to the unethical behavior at ZMS.

(marks 10)

(b) The Board of Directors of ZMS Bank failed to identify the impact of operational, regulatory, and reputational risks on the organization.

Required:

(i) Explain each risk and the impact of the Board of Directors' failure to manage it on ZMS Bank.

(marks 6)

(ii) Discuss how the implementation of good corporate governance at ZMS Bank can support internal control and better risk management.

(marks 10)

(c) Explain the purpose and benefits of holding a general meeting of shareholders to discuss the issues raised by the unethical behavior at ZMS Bank.

(marks 6)

(d) Draft a memorandum from the CEO to senior managers at ZMS Bank. The memorandum should include the following:

(i) An explanation of the information the Board of Directors should include in the next external report on internal controls and risks.

(marks 6)

(ii) Assess, based on the information provided in the case study, the importance for the Board of Directors of ZMS Bank to have access to all information relating to key operational risks and controls.

(marks 8)

Professional marks in Part (d) are awarded based on the format, clarity, logical flow, and persuasiveness of the memorandum.

(marks 4)

(Total 50 marks)

Section (B)

Answer only two questions.

Question (2):

Taher, a qualified chartered accountant, is leading an internal audit team at Zobat Company to investigate why a major project is currently incurring excessive costs and running behind schedule. Taher's friend is the project manager, although no one at the company is aware of their relationship. This project is critical to migrating clients from a slow, outdated computer system to a new customer relationship management (CRM) system, where all customer data can be consolidated, accessed, and analyzed more easily. If the project is likely to incur significant cost overruns, the board will likely cancel it, as it will not represent value for money. However, if the project is not completed, many employees, including Taher's friend, will likely lose their jobs. Taher is under pressure to report to the audit committee on his team's assessment of the project. If it concludes that the project is no longer viable, it will be terminated immediately. Taher's friend is fully aware of his plight and is putting tremendous pressure on him to misrepresent the true state of the CRM project. She expects her friend to write a positive report to the audit committee and recommend that the project be completed as planned.

ZOBAT does not have its own code of conduct. However, as a qualified accountant, Taher relies on his professional judgment when deciding on the next step.

Required:

(a) Explain the nature of professionalism as an accountant and how it should influence Taher's behavior and actions, both as a professional accountant and as the leader of the internal audit team at Zubat.

(8 marks)

(b) Evaluate the ethical threats Taher is currently facing and discuss possible safeguards that could have helped prevent this situation.

(9 marks)

(c) Using the American Accounting Association model, describe how Taher could have resolved his ethical dilemma and maintained his professionalism, and recommend what he should do next.

(8 marks)

(Total 25 marks)

Question (3):

Karkad, an international mobile network provider, has been subjected to several cyberattacks* in recent months. Most recently, more than 37,500 customer accounts were compromised, and large amounts of personal information were stolen by unknown parties. This incident has raised questions about the effectiveness of Karkad's information security systems. Given the scale of the recent breach, Karkad has been widely criticized in the media. Customers are demanding that the company take immediate action to fully investigate the incident and take measures to strengthen the security of its systems. Many customers have canceled their contracts with Karkad and switched to competing companies that were not subjected to a similar breach. Another impact has been a 23% drop in the company's share price since the cyberattack, raising concerns among shareholders. Concerned about the damage to its reputation and business resulting from the cyberattacks, Karkad's board has formed a risk committee. The committee includes experienced senior executives, as well as cybersecurity experts. The committee has been tasked by the Board of Directors with identifying, categorizing, and prioritizing the major cyber risks currently facing the company, and then recommending appropriate mitigation strategies.

A cyber attack is a malicious act by individuals, groups, organizations, or even nations targeting computerized information systems with the aim of stealing, altering, or even destroying the targeted information by breaching a vulnerable system.

Required:

(a) Identify the most significant risks facing Al Karkad Company from further cyber attacks, categorize them, and assess their potential impact ?

(8 marks)

(b) Recommend appropriate strategies to mitigate/manage the risks of cyber attacks facing Al Karkad Company using the TARA (Taking Risk Assessment and Effective Management) framework.

(8 marks)

(c) Explain the importance of risk awareness at all levels within Al Karkad Company, and suggest how to integrate risk awareness into its corporate culture.

(9 marks)

(Total 25 marks)

Question 4:

Al-Basla is a large and highly successful sports equipment retailer based in Toland, and listed on its stock exchange. It has experienced remarkable growth over the past 25 years, dominating its core market by offering commercial-grade goods at highly competitive prices. The company maintains a low-cost base by importing over 85% of its inventory from low-cost economies and selling it through an extensive network of retail outlets. Five years ago, Al-Basla's board of directors decided to open a large number of stores in several neighboring countries, given their location in the same customs union and the absence of import tariffs. These stores have been a great commercial success and now contribute over 27% of the company's revenue and 29% of its profits.

However, Lalande voters recently voted to leave the customs union, of which the country had been a member for nearly 45 years. The result of the referendum has led to economic uncertainty, most notably the devaluation of the Tolandese currency. Due to the weak currency, the cost of paying for imported goods for the

basket has increased by approximately 19% since the vote to leave the customs union, weighing heavily on its already limited profit margins. The actual withdrawal from the customs union will take several years. However, the withdrawal will mean tariffs on all sales from the basket's stores in neighboring countries, as they are still members of the customs union, and the goods it sells will be imported from Toland.

Basket was originally founded by Harveydow, a charismatic figure who still owns 39% of the company and is the current CEO. He is a controlling figure and exercises disproportionate influence over all board decisions. Harveydow saw no need to create a dedicated risk board, as the company had grown from strength to strength and therefore had no specific strategy for dealing with the economic difficulties it faced as a result of recent political events.

Required:

(a) Explain the concept of risk behavior and evaluate how it affects basket.

(6 marks)

(b) Explain the dynamic nature of risk assessment and advise on why and how the basket responds to changing risks arising from its economic and political environment.

(9 marks)

(c) Explain the role and responsibilities of the basket risk committee and discuss how a risk committee composed solely of non-executive members can improve the effectiveness of corporate governance arrangements.

(10 marks)

(Total 25 marks)