

STRATEGIC BUSINESS MANAGEMENT AND LEADERSHIP

Time allowed- 3:30 hours
Total marks- 100

July-August 2025

[N.B. - The figures in the margin indicate full marks. Questions must be answered in English. Examiner will take account of the quality of language and of the manner in which the answers are presented. Different parts, if any, of the same question must be answered in one place in order of sequence.]

Marks

1. a) In the ever-evolving landscape of corporate governance, every year a new set of challenges that boards across industries must navigate.

As the global economy recovers and adapts to post-pandemics, issues ranging from increased regulatory scrutiny to the integration of artificial intelligence in decision-making are on the rise.

The stakes are higher than ever, and the decisions made now will set the course for future operational success and ethical compliance.

Amid all of these, it can be challenging for a board to maintain a steady focus on the core functions needed to preserve, develop and grow a sustainable business—namely,

- the selection and compensation of management,
- overseeing and guiding the company's business strategy,
- overseeing risk management,
- building credibility with investors and other stakeholders, and
- the board's self-evaluation of its composition and processes.

Many of the issues facing boards today can be organized around one or more of these guideposts.

As it appears corporate governance challenges that boards face is quite high, it's clear that staying informed and proactive is key to navigating these complex issues successfully. This also include how Board can equip itself to meet those challenges.

Requirements:

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| i) How can boards manage conflicts of interest among their members effectively? | 3 |
| ii) Should a board opt for internal or external evaluations to assess its performance? | 3 |
| iii) What role does technology play in enhancing corporate governance? | 3 |
| iv) How can boards leverage digital tools and data analytics to improve decision-making processes and oversight capabilities? | 2 |
- b) Set to officially graduate from the United Nations' Least Developed Country (LDC) category in November 2026, Bangladesh is on the brink of entering a new chapter in its development journey. The decision to proceed with the graduation on schedule, despite recent global economic shocks, was reaffirmed by the GoB last month, dispelling any lingering uncertainty surrounding a potential delay. While this move symbolizes remarkable progress and reflects our steady economic growth since the country's war-torn beginnings in 1971, it also brings with it significant challenges, particularly for our ready-made garment (RMG) sector, the backbone of our export economy.

Bangladesh's graduation from the LDC category is a long-awaited milestone, achieved through meeting all three of the UN's eligibility criteria: Gross National Income (GNI) per capita, Human Assets Index (HAI), and Economic Vulnerability Index (EVI). It shows the nation's impressive strides in poverty reduction, human development, and economic resilience.

The RMG sector is the crown jewel of our economy, accounting for over 80 percent of the country's exports and employing around 40 lakh people. The industry has leveraged LDC trade privileges to become the second-largest global apparel exporter after China, becoming highly dependent on the trade preferences. Presently, 78 percent of Bangladesh's exports enjoy duty-free or reduced-tariff access in 38 countries under LDC schemes. Removing these preferences will significantly alter the cost dynamics of our RMG exports, which are highly price sensitive.

Once the LDC benefits expire, we will potentially lose over \$8 billion in trade annually, and face tariffs of 12 percent or more in many major markets. For a sector built on low-cost competitiveness, these added duties could erode the price advantages that have long fueled our global rise.

Requirements:

- i) Why Bangladesh wants to graduate despite drawbacks? 2
 - ii) What are the expected benefits of post-graduation? 2
 - iii) What are the immediate challenges for RMG sector? 3
 - iv) What kind of collaborative efforts are required between the government and private sector to overcome the negative impact of the transition? 4
- c) Bengal Spices Ltd, the largest spice marketer in Bangladesh, has initiated a hostile takeover bid for Celone Spice, a leading Sri Lankan spice company. This marks a rare instance of a Bangladeshi firm making an unsolicited bid for a foreign enterprise.

Bengal Spices has built strong competencies in the domestic market and has established export channels, particularly in Europe. Celone Spice, on the other hand, is renowned for its expertise in Sri Lankan herbs and spices and enjoys a robust international presence in markets where Bengal currently has limited reach.

The proposed acquisition is aimed at synergizing global operations to enhance competitiveness, expanding market reach by leveraging Celone's established distribution networks and diversifying product offerings with Sri Lankan herbs and spices.

A year ago, during a period of financial distress, Celone offered majority shares at \$5.00 per share. Bengal acquired 20% of the company at that time. Since then, Celone has successfully turned around its operations, reporting strong profits in the latest quarter.

Despite the turnaround, Celone's sponsors, who still hold 20% of the company, have rejected the original agreement, arguing that the offer undervalued the company.

Bengal has revised its offer to \$5.50 per share. The new offer has attracted interest from several large shareholders. Sponsors remain opposed to the sale, maintaining their stance against the takeover. Through open market purchases, Bengal has increased its stake to 45%, positioning itself as the largest shareholder and signaling readiness for a full takeover

Bengal Spices is actively working to consolidate its position and ensure a smooth acquisition process. The company aims to leave no room for resistance from Celone's management and is committed to realizing the strategic benefits of the merger.

Requirements:

- i) What strategic alternative is followed by Bengal Spices Ltd? 2
 - ii) Is hostile takeover by a Bangladeshi Company appropriate? 2
 - iii) Why is Bengal Spice interested in this takeover? 2
 - iv) Why are the Sponsors reluctant to transfer the shares after the agreement? 2
2. XYZ Company Ltd, a Ready-Made Garment (RMG) manufacturer based in Dhaka, Bangladesh, has entered into a legally binding contract with a US-based apparel retailer (the "buyer/importer") for the supply of 500,000 units of men's cotton shirts per month. The fixed contract price is \$56 per unit, with a total contract value of \$28 million per month. The contract is agreed for the next 3 years in the same price, terms and conditions. The contract includes detailed specifications, delivery timelines, and Incoterms (FOB Chittagong Port).

Recent development: The President of the United States has issued an executive order imposing a new 20% import tariff on all goods originating from Bangladesh, citing trade imbalances and labor standard concerns. The tariff takes effect immediately for all shipments arriving at US ports on or after August 1, 2025.

Out of the contract, two months' shipment were successfully shipped to the buyer before US increased its tariff, as a result of which it will receive USD 56 million proceeds in three months' time together. Managements are worried that the Dollar will weaken compared to Taka and hence affect the company's future cash flow.

Regarding the 3rd month shipment and onwards discussion:

The Company has shipped the third-month delivery, which is scheduled to arrive by August 3, 2025, and is now subject to the newly imposed tariff. In response, the buyer has initiated negotiations with the Bangladeshi exporter to discuss potential impacts and proposed amendments to the contract (as no clause exist for the ramped-up tariff in the initial contract).

Financial cost breakdown of the production:

Each unit of production consists of the following cost components (expressed as a percentage of the unit selling price):

Cost Component	% of unit cost	Description
Raw Materials (RM), Packing Materials (PM), and other overheads	42%	Direct production inputs and manufacturing-related expenses
Administrative, selling, and short-term finance expenses	18%	Includes salaries of admin staff, marketing, sales, and interest on short-term borrowings
Other operational expenses	4%	Utilities, maintenance, logistics, and other indirect costs
Total cost share	64%	

Two possible approaches have been suggested to deal with the foreign currency exposure, which are as below:

- (1) Do nothing now and convert USD 56 million at the spot rate prevailing in three months' time
- (2) Use the forward market to sell USD 56 million for TK at today's three-month forward rate.

The following relevant information has been collected.

- (i) The spot rate is Tk1/\$.008826 – 0.008854
- (ii) The three-month forward premium is \$0.0017 – 0.001

Requirements:

- a) What is systematic risk? Analyse the legal implications of a 20% US tariff imposed after the signing of a fixed-price export contract between the Bangladeshi RMG manufacturer and US buyer. How do Incoterms influence which party bears the additional tariff cost, and what contractual protection could the exporter have included to mitigate this risk? 5
 - b) Bangladesh must adopt a strategic mix of responses to safeguard its economic future. Can you suggest some strategies for safeguarding the national economy? 4
 - c) Calculate the effects of each of the two approaches discussed above, assuming that the spot rate prevailing in three months' time is Tk1/\$0.0085 and Tk1/\$.009633. 6
3. Risk management is vital for the sustenance and prosperity of companies, regardless of their size or industry. At its core, it is the identification, assessment and mitigation of potential risks that may impede organizational objectives or lead to adverse outcomes. Having a robust risk management approach means businesses can safeguard their assets, reputation and bottom line.

The statistics are somewhat alarming. According to research 69% of executives are not confident with their current risk management policies and practices. What's more, only 36% of organizations have a formal enterprise risk management (ERM) program.

Proactive risk management isn't just a defensive measure; rather, it is necessary for sustainability and growth. With 62% of organizations experiencing a critical risk event in the last three years, it is important to be proactive. By identifying and addressing potential risks, organizations can become more resilient to external shocks and internal disruptions. This means they're better able to survive through difficult times and maintain operational continuity. Moreover, a proactive stance enables companies to seize strategic advantages. It allows them to innovate, expand into new markets and capitalize on emerging trends with confidence.

Additionally, Cybersecurity risks have become a major concern. Threats such as data breaches, ransomware attacks and phishing scams pose significant risks to companies' data, operation and reputation. Companies are investing heavily in cybersecurity measures and adopting proactive approaches to protect their digital assets and mitigate cyber risks.

Companies are integrating global risk management into their overall risk management strategy too. They are monitoring global developments, assessing the impact of global risks on their business operations and developing contingency plans.

Requirements:

In this context explain:

- a) What would be the leadership role in shaping risk management in an organization? 8
- b) What is risk-aware culture and how can risk-aware culture be implemented in an organization? 8
- c) How could risk management be a part of performance management? 4

4. a) Samiha PLC. is a national retail chain with 150 grocery and general merchandise stores. The company operates its own in-house waste management process, including segregation of organic, packaging, and hazardous waste (e.g., batteries, e-waste). Waste is temporarily stored at store-level and later transported monthly to third-party licensed waste disposal contractors.

Under environmental regulations, the Company is legally required to dispose of certain types of waste, such as food waste and hazardous materials, in compliance with health and safety laws. A nationwide waste disposal contract is in place, with fixed and variable components (e.g., fixed fees per pickup and variable charges based on weight).

Requirement:

Based on the above, how and when should the Company recognize or capitalize an expense or provision related to waste disposal including disclosures requirement under IAS 37, if any required.

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- b) A renowned surgeon admits a patient to the hospital for aortic valve surgery through a package offer, where the hospital shall be responsible for the overall surgery that includes, besides the surgery, providing associated medical services (nurses, surgical technicians, and other healthcare professionals), surgical instruments (sterilized tools), anesthesia monitoring, sterile environment (minimize the risk of infection), drugs and medications (medications, including pain management and antibiotics, both before, during, and after surgery), pre and post-operative care (assessments, lab tests, consultations, and any other preparatory procedures needed before the surgery) and foods etc.

The patient remains in the hospital for 10 days, with the resources required varying significantly each day. The most intensive care is needed on the day of surgery and the following day, as the patient undergoes recovery from the procedure. As the patient's condition stabilizes gradually, less intensive resources are required on subsequent days.

Requirements:

- i) How many performance obligations (single or multiple) are embodied in Hospital's package offer with the patient as stated above per IFRS 15? 1
- ii) Would your answer be different if the patient self-admitted themselves, requested the surgical procedure, agreed to and paid for other service fees such as hospital bed, consultation, medicine and consumables goods as and when required, rather than signing up to the package offer? 4
- c) Mohesh PLC is being audited by a statutory auditor. Audit In-charge was reviewing intangible additions during the year regarding new accounting software. During the discussion, In-charge got to know that Green enters into a PaaS (Platform as a service) arrangement with Supplier P that provides the Company with access to P's computing infrastructure and development tools for a period of five years for a fixed fee per year. The Company uses the development tools provided by P to program its own customer relationship management (CRM) application. Under the contract between the Company and P, all intellectual property rights to the development tools remain with P. However, the Company retains all intellectual property rights to the software code for the CRM application that it develops using those tools. Green also has the right to transfer the CRM application to its own or a third party's computer infrastructure.

Requirement:

Should a PaaS arrangement be accounted for as an intangible asset under IAS 38, property or plant & equipment under IAS 16, or a lease under IFRS 16? Briefly discuss.

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5. a) Delta Devices Ltd. is a medical equipment manufacturer that recently switched audit firms due to disagreements with its previous auditor over inventory valuation methods and revenue recognition related to long-term government contracts.

You, "MSBT" as the new external auditor, are appointed to perform the audit of the financial statements for the year ending 31 December 2025. The last year audit report (2024) was qualified by predecessor auditor on the following grounds:

- Inventory overstatement
- Inadequate contract revenue recognition disclosures

Relevant opening balances were as follows (1/1/2025):

Account	Opening Balance	Audit Complexity
Inventory (medical equipment components)	BDT 42 million	Valued using inconsistent methods, physical verification not evidenced
Contract assets – long-term Government supply contracts	BDT 19 million	Measured using stage-of-completion method with unsupported estimates
Deferred Tax Asset	BDT 4.8 million	Based on losses with limited evidence of future taxable profits
Property, Plant & Equipment	BDT 71 million	Includes revaluation done in 2024 with no independent valuation report available
Provisions (Product Warranty)	BDT 3.2 million	Based on historical data but with inconsistent warranty policy applications

Requirement:

Thus being a first-year audit for you, how do you plan for the initial audit procedures including risk assessment?

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- b) Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.

Although fraud is a broad legal concept, for the purposes of the ISA 240, the auditor is concerned with fraud that causes a material misstatement in the financial statements. Two types of intentional misstatements are relevant to the auditor – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Although the auditor may suspect or, in rare cases, identify the occurrence of fraud, the auditor does not make legal determinations of whether fraud has actually occurred.

The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. It is important that management, with the oversight of those charged with governance, place a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment. This involves a commitment to creating a culture of honesty and ethical behaviour which can be reinforced by an active oversight by those charged with governance. Oversight by those charged with governance includes considering the potential for override of controls or other inappropriate influence over the financial reporting process, such as efforts by management to manage earnings in order to influence the perceptions of analysts as to the entity's performance and profitability

Requirements:

Why is risk of management over-ride of control always regarded as high and what audit procedures are to be performed over this?

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6. a) You are a manager at your audit firm, currently assigned to perform monitoring activities under the firm's System of Quality Management (SoQM) in accordance with ISQM 1.

One of the key controls under your review relates to client acceptance and continuance, which is owned and operated by the Audit Director of your practice division (your line manager). This control is critical for ensuring ethical compliance and managing engagement level risks.

After performing a detailed walkthrough and evaluating supporting evidence, you determine that:

- The control was not performed in accordance with documented policies.
- Certain required due diligence steps (such as independence checks and conflict resolution documentation) were skipped and poorly documented.
- This breakdown might have a material impact on the firm's quality objectives - ISQM 1.

You meet with the Audit Director to share your findings. However, he strongly disagrees with your assessment and claims that "the control was fine in substance" and that you are being "too rigid." The Director also implies that your findings may cause unnecessary tension with firm leadership, especially requiring to remediate the control by reperforming by next month without any delay.

You are in a dilemma about as how to deal with this situation. If you report quality observation (deficiency) on this control, it needs to be reported through Issue Management Portal and remediated /reperformed again by the audit director. Again, you feel if not reported, it would breach the independence and overall quality of the SoQM of the firm.

Requirements:

How to deal with the situation portrayed above and what is the appropriate way to handle this type of ethical dilemma especially with the line manager?

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- b) Your firm audits Global PLC, a publicly listed multinational manufacturer of industrial components used in sectors including energy, transport, and defense. The client operates in over 20 countries, including complex jurisdictions with high legal and regulatory risks.

The Company's consolidated revenue is USD 5.2 billion, with operations in several emerging markets. Your firm has audited them for the past 7 years.

During your current year audit, your team identifies a previously unknown revenue stream of approximately USD 85 million, originating from a newly created subsidiary in a neutral, offshore jurisdiction in the UAE.

Upon investigation, you find that:

- The entity was incorporated within the past 18 months.
- It acts as a trading intermediary, routing shipments and invoices on behalf of an affiliate based in a country under partial international sanctions (e.g., Iran, Syria, or North Korea).
- The affiliate manufactures critical components and sells them to customers in Asia and Africa via this new entity, thus avoiding direct exposure to the sanctioned country in financial statements.
- The arrangement was structured by legal and tax advisors and approved by the client's legal department.
- There is no clear economic substance in the intermediary entity—no office, no staff, no operations.
- The CFO defends the structure, stating, "We have legal opinions. We're not breaching any laws. This is just a smart way to protect our global sales."

Requirement:

Is it ethically sound? Are you required to report this to regulators or others under NOCLAR (non-compliance with laws and regulations?)

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---The End---