



SCS Mock 4
SCS | November 2022

Exam attempted on 2022-11-12

Exam attempted by aruna_rajapaksa@yahoo.com

Marked by Nicholas

Answer for Section 1 | SCS Mock 4

Elapsed Time 12:10

To : Bogdan Amuzescu
From : Senior Manager Finance

The exposure to the currency risk

The currency risks arise from dealing with 2 different currencies for day to day business transactions.

The transaction risks involve in day to day payments or receipts being accounted for in a different currency other than in the based country. Hottayr is dealing with N\$ where as Maryland deals with M\$.

As we are paying for Cloudnine services by N\$, if the Maryland currency strengthens further, we will have to pay more N\$ in order to obtain the services than we are paying now. This will affect the cashflow of Hottayr as the currency is volatile.

Since the inflation rate is high and the government is going for a contractionary monetary policy the inflation rates will come down in the future and the investments will be reduced in this period of time. Hence, the investments which will be done today will have a lesser value in the future.

Since Hottayr is making an investment to set up the Hottayr heat pump factory, the investment will come down in value in the future converted to N\$.

Since we are paying cloudnine services on regular and irregular basis we must keep in mind that if M\$ strengthens over the N\$ Hottayr will have to pay more N\$ in order to obtain the services. Hence, if Cloudnine feels that they need to retain Hottayr as a client for a competitive price they may reduce the quality of their solutions they provide.

Note

Strategic Implication on relying on Cloud nine

Cloudnine will be the sole solution provider for Hottayr data needs and single dependency always comes with higher risks.

Hottayr is relying on Cloudnine on all of its data needs. Hottayr doesn't know any data leaks or shortcomings of cloudnine. If there is a data breach or a system failure Hottayr operations will be left stranded.

In the modern world hacking and data breaches are very common and even if cloudnine is the largest data provider in Maryland there is an unknown risk for cyber attacks. Hottayr has a higher reputation among customers and its stakeholders and an incident like this will impact Hottayr in a negative way.

If cloudnine finds out that we are solely depending on them for the data needs the prices for the services quote can be increased. After a certain period of time operating with Hottayr and knowing the operations Cloudnine will be able to provide an efficient service and solutions compared to other players in the market. For this, they can charge Hottayr a premium price knowing that Hottayr will not be able to get the same service elsewhere.

Depending on cloudnine alone will give the supplier a higher power in negotiations. Hottayr is a well established company which has significant market edge, thus, it will not be able to create dominance with Cloudnine as it will be the sole provider of the service.

Commented [TCS1]: Appropriate heading.

Commented [TCS2]: Accurate.

Commented [TCS3]: This was not mentioned in the scenario. You should have mentioned that it is assumed that the inflation is high.

Commented [TCS4]: Irrelevant to the requirement highlighted in the task.

Commented [TCS5]: Accurate.

Commented [TCS6]: You have not provided an answer which considered all the facts mentioned in the scenario. Please refer to the answer plan to gain a proper understanding of what you should have covered in your answer.

Commented [TCS7]: Appropriate heading.

Commented [TCS8]: Accurate.

Commented [TCS9]: Inaccurate. Given Hottayr's market standing and it being a quoted company for the past 50+ years, it is in a position to bargain a discount. Refer to the answer plan.

Commented [TCS10]: Accurate yet contradicts the point highlighted in the previous paragraph.

Hottayr is planning to obtain various value added services from Cloudnine. These service must be provided in a stipulated time frame and provided with accuracy as Hottayr is a company which is known for its trustworthiness and excellence. If Cloudnine will be pushed with services beyond its capacity these data services will have a delay or will be delivered with less quality. This can impact Hottayr in an adverse way.

However, Cloudnine is a leader in the market and can be benefited for Hottayr is different ways. Since Hottayr is collecting data by the app for its heat pumps Cloudnine will be able to obtain and maintain these data without any confusions as it is the market leader and has the expertise to handle customer data.

The customers and suppliers of heat pumps will find it easier to contact a home country based data solutions provider rather than calling Norland IT department for clarifications. This will have a positive impact on Hottayr as the services will be timely and efficient.

However, if Hottayr can secure 2-3 companies who can provide the same services in similar quality, will be benefitted for Hottayr. This will give Hottayr options to spread its risk of failure in case of an emergency. In addition, Hottayr will have more buying power and negotiation power, this will allow Hottayr to mitigate the impact of currency risk and being have to pay higher prices for the services.

Finally, As the non executive chairman suggested Hottayr can open up its own data centre. However, it will be an additional cost on top of establishing the heat pump factory. Further we need to hire and train employees to the required standard. This will give us autonomy and security in data wise where the data will not be exposed to a third party.

However, it is advisable that Hottayr to maintain few suppliers of data solutions rather than depending on one supplier.

If you need further clarification on this please feel free to contact me.

Regards,

Senior Financial Manager.

Commented [TCS11]: There was no mention about capacity constraints which will prevent Cloudnine from fulfilling value added services requested by Hottayr.

Commented [TCS12]: Accurate.

Commented [TCS13]: The data and related services are used by Hottayr, not its customers.

Commented [TCS14]: It was noted in the question that Hottayr is yet to locate a service provider which matches the capabilities of Cloudnine. Hence, it is unlikely that Hottayr can rely on 2/3 service providers.

Commented [TCS15]: Accurate.

Answer for Section 2 | SCS Mock 4

Elapsed Time 25:55

To : Bogdan Amuzescu

From : Senior Finance Manager

Economic risks of operating a data centre in Ceeland

By setting up the Ceeland centre Hottayr will be exposed to a different government and jurisdiction. The operating ways and the policies will vary from Norland. Interest rates, tax rates should be considered. Hottayr has good alliance with the Norland government and no contacts with the Ceeland government. This may lead to a risk if there are sudden adverse policy changes.

The investment is 500Mn on this data center and it's a considerable amount of money. Hottayr must critically evaluate the best way to invest in this center if its going to raise funds via equity or debt. However, since the Ceeland currency is a strong currency converting to the N\$ in to C\$ will have a negative impact on Hottayr.

Since the C\$ is a strong currency and if it appreciates Hottayr will have a negative affect when transacting with N\$. If the currency appreciates Hottayr's forex transaction values increases and will have to pay more in the future compared to today's value.

The current government is supportive of the IT sector and its development and this will be a good opportunity to Hottayr. The government has established economic zones within Ceeland to support IT related operations and Hottayr will be able to establish the data center in this zone and the approvals for the establishment can be obtained easily as Hottayr has a good reputation on its operations.

The government in Ceeland has highly invested in the higher educational sector and as a result there will be a skilled workforce in the market. Hottayr current employees are skilled and evident to be the best in the market. Hottayr will have the opportunity to recruit the same calibre staff from Ceeland workforce and will have the opportunity to carry out operations with the same amount of quality output.

Further, the Ceeland center will be close to Hottayr in Norland geographically. This will give the opportunity for Hottayr to travel quickly to the Ceeland center if there are any issues or urgent matters to clarify.

The economic cities in the northern city operates 'natural cooling systems'. This helps to cool the servers and save energy. Server must run 24/7 and the running costs are one of the highest costs involved in the IT sector. If Hottayr can make advantages of this cooling servers there can be a reduction in the operating costs for the company. This will show an improvement in the profits for the company.

The CFO has mentioned that the assets needs reinvesting in the medium term as the assets outdate quickly. This means that Hottayr must invest in a medium term basis in Ceeland. These investments will cost more to Hottayr if the currency of C\$ appreciates.

Creditworthiness of HottayrA

The Hottayr asset base in Norland. However, the borrowings will be in Ceeland. The C\$ is a strong currency and converting the N\$ valued assets to C\$ will give a lesser value for the assets. The translation risk will be high to Hottayr and the banks in Ceeland will not value the assets as the same value in Norland.

Commented [TCS16]: Appropriate heading.

Commented [TCS17]: Accurate.

Commented [TCS18]: Accurate.

Commented [TCS19]: Accurate.

Commented [TCS20]: Good!

Commented [TCS21]: Accurate.

Commented [TCS22]: Appropriate heading.

Commented [TCS23]: Good!

As mentioned earlier the financial institutes will consider that the Hottayr assets are based in a different country and they will have minimal access as using the assets for collateral against the debt. Usually for a debt of 500Mn there will be requirements of backing the debt with an asset. Chances are that Hottayr will not be able to provide any collaterals to the banks.

Commented [TCS24]: Accurate.

Compared to the competitors Thermwyk, Hottayr has a slightly higher operation cost. This will be a concern for the banks in Ceeland as setting up another data centre would add up to this costs and will bring the reserves down.

Commented [TCS25]: Not too relevant to the requirement. The banks will not compare the operating costs of Hottayr with Thermwyk when deciding the creditworthiness of Hottayr.

The current gearing for Hottayr will be at 34%. After obtaining the loan the gearing will increase to a alarming 70% (considering C\$500 in N\$). This is one of the main things that a financial institute will look into and chances of getting the loan rejected are high with a higher gearing ratio.

Commented [TCS26]: Good!

Interest cover of Hottayr has increased over the years and its current at 9 times the operating profit. However, by obtaining the loan the interest cover may come down as the loan amount is a substantial amount. This will have an adverse effect on future borrowings.

Commented [TCS27]: Accurate.

Looking at the management team the financial institutes may question the leadership provided by CFO for both finance and IT. They will see this as divided attention. A loan amount of this calibre must be under the direct focus of the CFO as the bank will be really concern about servicing the payments on time.

Commented [TCS28]: Accurate.

Investing via a rights issue

Commented [TCS29]: Appropriate heading.

Rights issue will dilute the share value as it will increase the number of shares. This will result in a decrease in the price of the shares. The current shareholders will not favor this decision as their portfolio will be coming down and may lead to sell shares.

Commented [TCS30]: Accurate.

Hottayr has a Beta of 1.2 which means the shares are riskier compared to the industry. This beta factor will always attract risk positive shareholders to the company. Since Hottayr is going for an investment and it's the first time that Hottayr is establishing a data center outside of Norland it will contain greater risks. This decision will be supported by the shareholder who are willing to take risks for a greater return.

Commented [TCS31]: Good!

The shareholder may short sell the shares as soon as the news made public to gain a profit in the future. Margin trading is a technique used to sell the shares at the market price or a bit lower in the idea of buying back the shares when the share price is lower. The shareholders will buy back the shares at a lower price and hold it till the share price recover in the market. This will result in share price coming down further.

Commented [TCS32]: Accurate yet need to improve. You should have mentioned as to how Hottayr could influence its shareholders to avoid such a situation. Further, you should have mentioned the method used when determining the share issue's price, which will prevent short selling. Refer to the answer plan.

A rights issue will not increase gearing of the company. If the loan was obtained to finance the investment the gearing ratio would have gone upto 70% which is not an acceptable level by financial institutes. However the right issue can be used to raise the amount of finance without effecting the gearing ration.

Commented [TCS33]: Accurate.

However, the C\$ is strong and appreciates against the N\$. If Hottayr requires further cash the rights issue will not be helpful. The right issue will be done to raise a fix amount of capital at a agreed no of shares and the company will not be further able to raise finance unless gone for another share issue.

Commented [TCS34]: Accurate.

There will be underwriting and management costs for the share issues and these costs can be high compared to the fees and charges charged by the banks for a loan. This is a main disadvantage that Hottayr will have on a rights issue.

Commented [TCS35]: Accurate.

If you need any further clarifications on this please feel free to contact me.

Regards,

Senior Finance Manager.

Answer for Section 3 | SCS Mock 4

Elapsed Time 42:58

To : Elaine Barros

From : Senior Finance Manager

Internal Controls to be Implemented in Hottayr

Internal controls are a vital part of the organisation's daily operations and this is something that should be implemented from the top management to the bottom. Internal control can be used for Hottayr in the means of system controls, access controls, loss prevention controls etc.

Hottayr IT department must install all its computers with automatic screen locks ideally to be effective if the computer is not used for a certain amount of time. Many companies nowadays are using auto lock screen locks if the computer has been ideal for more than 30 seconds. This is a great way of control to secure the data and sensitive information from the laptops and other computers. If this control has been in place Jack's computer would have gone to the lock screen mode short after he left for the break. This would have saved the company data and his job.

Passwords and user names are an effective method of excersing control within a system. If the systems and data bases are password controlled it will be very hard for a user to access the information. In addition, if there is a breach of the system, IT or the Audit department can gain access to the login information and determine the right person for the breach. This will give IA a trail or a basis to start the investigation and recover from the loss.

Data is a specifically an important part of Hottayr. Hottayr is heavily depending on R and D and it is one of the most key strengths of the business. Important data as this can be divided into sectional access where several responsible personals need authenticating to access the data. Division of the authority to access data would prevent incidents like this. If Jack had access only for certain level of authority in the company the loss of data would be minimal.

Hottayr is collecting data from customers via a mobile app and in addition, the R and D is done everyday. The information will flow 24/7 for the company. Hottayr must build a data center which capture all these data and provides a live back up to a different server. In this instant, even if Jack's computer was compromised the main data would have been recovered. Real time server updates should be made essential and IA department must audit the effectiveness of these servers in order to ensure prevention incidents like these in the future.

According to the hierachy, if there is a breach like this, an immediate notice must be sent to the supervisor or to the manager in charge. So that the relevant employee can be informed and advised to urgently. If Jack was informed by the breach in a text message or a phone call he would've prevented this situation.

Training on awareness of these situations is essential and it is an important part of internal control. There are many companies providing training for IT related incidents for non IT employees so that they are aware of these situation.

There should be a personal disclosure signed by the employees for using of using IT assets and company data so that it will be given a heavy weightage. Once signed, the employees will be extra vigilant about these matters.

Commented [TCS36]: Appropriate heading.

Commented [TCS37]: Accurate.

Commented [TCS38]: As per the scenario, Jack has not lost his job yet.

Commented [TCS39]: Irrelevant to the information highlighted in the requirement.

Commented [TCS40]: Accurate yet Jack plays a directorial role within Hottayr and would have had access to large data sets.

Commented [TCS41]: This is happening within Hottayr. As per the preseen, the company operates a remote backup.

Commented [TCS42]: Accurate.

Commented [TCS43]: As per the information provided in the scenario, a third party has accessed the database using Jack's login credentials. Hence no one would have known about the data breach instantaneously.

Commented [TCS44]: Accurate yet need to improve. You should have mentioned what should be covered under this type of training.

Commented [TCS45]: Accurate.

Ethical Concerns regarding Jack

Integrity is been honest about the situation, Jack was in a conference where there was many other companies in the industry. He should be honest with him self explaining the situation whether he was set up for this situation for a different kind of benefit or if this was a genuine mistake from his end.

Objectivity is acting in a situation unbias, Jack should be unbias about the situation and must declare if he was really in a tenced situation. If Jack was pressurised with routine work and additional work he should raise these concerns to defend him self.

Professional Behaviour wise Jack was unsuccessful as he must have locked his computer before he left for the break. It is a responsibility of Jack to maintain adequate behaviour to prevent these incidents happening again. Hoattayr wise, the company must evaluate if the work load was too much for Jack as stated and if it caused this to happen. Rather than going for an immediate redundancy a fair independant inquiry must take place.

Hottayr and Jack must both have professional competence and due care. Hottayr must take into consider that Jack has been a valuable employee and for the contribution he made. Rather than firing him for the mistake, a written warning must be given to Jack so the incident will not happen in the future. If the company get rid of Jack Hottayr would lose a valuable employee and it will take a period of time and effort to rebuild another person. On the other hand, Jack as a senor staff member must not neglect responsibilities like this and must be aware of the situation around him. He should have known that the competitors are around him and they will pounce on any chance that they get to impact Hottayr in a negative way.

Hottayr must use the information of the breach in a confidential basis. A fair review must take place taking into Jack's comments and situation and Jack should be suspended only until the final outcome.

Jack must of known the consequences of the actions. If he was overloaded with work he must have brought that up with a supervisor and seek advise on delegating few tasks with a colleague. Hottayr must consider that Jack is a long term employee and has contributed to companies any achievements.

My advise is to conduct a fair and an independent review of the situation. Rather than reduendance Jack must be suspend from his duties until an outcome is made.

If you need more details regarding this please feel free to call me.

Regards,

Senior Finance Manager.

Commented [TCS46]: Appropriate heading.

Commented [TCS47]: Accurate.

Commented [TCS48]: Should improve.

Commented [TCS49]: Accurate.

Commented [TCS50]: Should improve.

Commented [TCS51]: Accurate.

Commented [TCS52]: Irrelevant to the requirement.

Commented [TCS53]: Partially accurate. Jack's behaviour should not go unpunished given that he is playing a directorial role. A written warning is unjustifiable, given that his actions has exposed the company to significant issues.

Commented [TCS54]: Irrelevant to the requirement.

Commented [TCS55]: These points were highlighted earlier in your answer. Avoid repeating the same points within the same requirement.

Grade

Task		Allocated	Gained	Success %
1	a	20	6	30%
	b	30	12	40%
2	a	17	14	82%
	c	16.5	11.5	70%
	b	16.5	10	61%
3	a	25	9	36%
	b	25	8	32%
Total		150	70.5	47%

Pass Mark	80
Marks Gained	70.5
Grade	FAIL

- Note that the areas highlighted in yellow depict the sub tasks in which you have exceeded the threshold success rate of 54%.

General Comments

There is a tendency to include information which are irrelevant to what is highlighted in the question or scenario. To avoid this, it is better to spend some time to understand the exact requirement of the task before developing the answer plan. It is thus recommended to reiterate the requirement in your own words in a precise and concise manner, which will be beneficial when developing answer plans.

Further, some of the points which you have mentioned were not mentioned on the preseen or the scenario and were your own assumptions. Refrain from mentioning assumed information within your answer.

Refer to the Answer Plan of Mock 4 to gather an in-depth insight about the expected quality of answers. Watch the videos pertaining to the Master Classes of Mock 4 as well.