

**RSK2601**

(475047)

October/November 2015

ENTERPRISE RISK MANAGEMENT

Duration 2 Hours

70 Marks

EXAMINERS

FIRST

SECOND

MISS S MARE

MS CJ DE SWARDT

MRS AT MUTEZO

Use of a non-programmable pocket calculator is permissible

Closed book examination

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The examination document consists of **17 pages** including this page and 2 pages for rough work

The paper comprises of **TWO SECTIONS**

Section A consists of 40 **Multiple-Choice** questions of 1 mark each. The answers to these questions must be indicated on the **mark-reading sheet** provided. Students must write their student number and the unique number **475047** on the mark reading sheet.

Section B consists of **Essay Type** questions. Each question must be answered in the designated area below the question

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SECTION A: MULTIPLE-CHOICE QUESTIONS**[Total 40 Marks]**

The **CORRECT** answers to these questions must be indicated on the mark-reading sheet provided. Write your student number and the **unique number 475047** on the mark reading sheet.

Question 1

Enterprise risk management (ERM) is characterised by a

- 1 narrow focus on hazard risks
- 2 comprehensive, inclusive and proactive approach to risk management
- 3 functional approach to risk management responsibilities
- 4 lack of consistency in terms of level of detail and reporting formats

Question 2

The purpose of an ERM policy is to

- 1 assist an organisation in integrating risk management into its management processes
- 2 communicate externally that risk management is being practiced
- 3 satisfy internal and external audit requirements
- 4 set out how the risks will be managed and controlled

Question 3

What do boards fundamentally seek from an ERM system?

- 1 The avoidance of unpleasant surprises and losses
- 2 Integration of risk management, audit and governance
- 3 Robust procedures
- 4 Competent risk management teams

Question 4

Which of the following are benefits of ERM?

- a Build confidence with stakeholders and the investment community
- b Align risk appetite and strategy
- c Link risk with audit requirements
- d Seize opportunities

Choose the correct combination:

- 1 a,c
- 2 b,c
- 3 a,b,d
- 4 all of the above

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Question 5

Which of the following is typical to the traditional approach to risk management?

- 1 Risk management carried out in silos and extensive use of insurance.
- 2 A comprehensive approach to managing risks
- 3 Integrating efforts of operations and risk managers
- 4 Viewing risk management as part of everyone's daily routine

Question 6

King III applies to

- a Banks
- b Insurance institutions
- c Public sector agencies
- d All listed companies on the JSE

Choose the correct combination:

- 1 a,b
- 2 a,b,d
- 3 a,b,c
- 4 all of the above

Question 7

In terms of the King III Code of governance principles

- 1 internal audit should be integrated with the risk management process
- 2 risk management is separable from the company's strategic business processes
- 3 risk management should be performed on an ongoing basis
- 4 compliance should not form part of the risk management process

Question 8

The King III Report on Corporate Governance introduced which of the following new concepts?

- a Shareholder approval of remuneration policies
- b Alternative dispute resolution (ADR)
- c Directors' performance evaluation
- d Business rescue

Choose the correct combination:

- 1 a,c
- 2 a,b,c
- 3 b,c,d
- 4 all of the above

Question 9

The King III Report on Corporate Governance was implemented in reaction to new trends in

- 1 environmental practices
- 2 international governance
- 3 ethical practices
- 4 economic and social responsibilities

Question 10

A business must aspire to be a good corporate citizen by empowering the board of directors to

- a implement a code of ethics
- b align information technology (IT) with business objectives
- c to report on social, health and transformational policies and practices
- d ensure that key risks are quantified and responded to appropriately

Choose the correct combination:

- 1 a,c
- 2 a,b,c
- 3 b,c,d
- 4 all of the above

Question 11

The risk management policy forms part of the ERM

- 1 scenario
- 2 taxonomy
- 3 framework
- 4 structure

Question 12

Which one of the following is a recognised context stage (first stage) tool to obtain information on the business?

- 1 GAP analysis
- 2 Database analysis
- 3 Investment analysis
- 4 PEST analysis

Question 13

During the context stage of a risk study, the ERM team for House and Home elects to examine House and Home's financial ratios to understand the business' financial health before moving onto the risk identification stage. This will enable them to

- 1 provide a quick and relatively simple way to examine the financial position and performance of House and Home
- 2 assess whether House and Home's records are regularly updated
- 3 open the dialogue with the finance department and the internal auditors in House and Home
- 4 satisfy recommended ERM practices for this stage of the risk process in House and Home

Question 14

A risk checklist is a useful tool for a business to determine

- 1 its strengths and weaknesses in the micro environment
- 2 the internal environmental factors which may influence its performance
- 3 the main risks linked to a certain project of the business
- 4 the external environmental factors which may influence its performance

Question 15

The Delphi technique is primarily used in the stage of the risk management process

- 1 evaluation
- 2 analysis
- 3 identification
- 4 monitoring and review

Question 16

Using a risk identification facilitator from outside the business will

- 1 assist with timetabling
- 2 avoid creating tension in the team when one is selected as the facilitator and others are not
- 3 avoid problems of bias, lack of independence, hidden agendas, single direction approaches or pursuit of personal goals.
- 4 avoid the facilitation process or approach being constrained by previous approaches

Question 17

Scenario analysis can be used

- 1 to record ideas in a scenario for clarification and evaluation
- 2 for technological forecasting by expert scenarios
- 3 to identify risks by using case scenarios (best to worst scenarios) to consider possible future developments
- 4 in an interview to view a situation from a different perspective

Question 18

What are the key obstacles in an organisation that prevents the integration of ERM with the overall business strategy?

- a The board does not understand or appreciate the principles and benefits of ERM
- b Directors consider risk management a task for line management and not the board
- c Fear of creating a risk-averse and bureaucratic culture
- d Competition with other priorities

Choose the correct combination:

- 1 a,c
- 2 a,b,d
- 3 a,b,c
- 4 all of the above

Question 19

Which of the following is a typical output of the Risk Evaluation stage?

- 1 Industry betas
- 2 Human Resources Plan
- 3 Risk Register
- 4 Profit and loss account

Question 20

A list generated during the risk identification stage to categorise each risk into a type or are in the business, is known as a risk

- 1 index
- 2 taxonomy
- 3 prompt list
- 4 checklist

Question 21

Pareto analysis is used to .

- 1 identify risks that will have a dramatic impact on business projects/activities and objectives
- 2 determine the expected return of an asset in relation to its risk or risk profile
- 3 structure decisions, uncertain events and values of outcomes
- 4 identify the causes of any risk

Question 22

The number of years required to recover an initial investment is called the

- 1 Net Present Value (NPV)
- 2 Internal Rate of Return (IRR)
- 3 Payback Period (PP)
- 4 Average Rate of Return (ARR)

Question 23

Decision analysis is a useful technique to .

- 1 structure uncertain events and values of outcomes
- 2 examine how sensitive the project outcomes are to changes in the business
- 3 focus on the consequences of combinations of events which are not likely to happen
- 4 analyse financial models where variables may be uncertain

Question 24

Risk appetite .

- a can also be referred to as risk attitude, tolerance, preference or capacity
- b is the amount of risk a business is prepared to treat or avoid
- c has no impact on the risk strategy responses and action plan
- d varies according to the objectives, culture and environment of businesses

Choose the correct combination:

- 1 a,b
- 2 a,d
- 3 a,b,d
- 4 all of the above

Question 25

Risk transfer is used to

- 1 accept the risk in the business
- 2 transfer the risk to a third party
- 3 reduce the likelihood of a risk occurring
- 4 eliminate a risk when a negative outcome is anticipated

Question 26

The main reason for controlling risks is to establish whether

- 1 risk meetings are happening regularly
- 2 risk response actions are effectively implemented
- 3 a risk database is being maintained
- 4 meaningful information is used for decision making

Question 27

The monitoring and review stage

- 1 occurs infrequently
- 2 is a continuous process
- 3 is implemented prior to the annual report
- 4 is implemented to satisfy audit requirements

Question 28

Key Risk Indicators (KRIs)

- 1 are useful to directors to assess whether their annual bonuses will be awarded
- 2 assist with business planning and decision making
- 3 are used to measure a business's health
- 4 help to understand the market as a whole

Question 29

The risk of the exposure of an enterprise to adverse events that erode profitability and in extreme situations, brings about business collapse is risk

- 1 financial
- 2 economic
- 3 strategic
- 4 market

Question 30

The uncertainty linked to the recovery of outstanding amounts due is known as risk

- 1 exposure
- 2 default
- 3 credit
- 4 recovery

Question 31

If an individual, other than an employee, gains unauthorised access to a company computer by way of a public telecommunications system, that individual is guilty of

- 1 using an unauthorised public telecommunications system
- 2 unauthorised access with the intent to commit further offences
- 3 software malpractice
- 4 internet misuse

Question 32

Which one of the following is a benefit of operational risk management?

- 1 Maximising day-to-day profits
- 2 Improving financial planning and management
- 3 Providing a more robust ERM system and correlation of different classes of risks
- 4 Enabling a better understanding of compliance with legal requirements.

Question 33

Information technology tools include

- 1 E-commerce
- 2 broadband
- 3 E-mail
- 4 intranets

Question 34

Options, futures and swaps are financial products called

- 1 foreign currencies
- 2 investment options
- 3 derivatives
- 4 credits

Question 35

Global warming is becoming a common concern all over the world. Which of the following initiatives has been implemented by the South African Government to reduce the effects of global warming?

- 1 Allowances for greenhouse gas emissions
- 2 Environmental sustainability
- 3 Emission trading protocols
- 4 Carbon tax

Question 36

Which one of the following factors is important for the development of a sound economic risk management system?

- 1 An understanding of financial systems and internal controls
- 2 An understanding of the impact of changes in exchange rates on the demand curve
- 3 An understanding of the drivers of environmental sustainability
- 4 An understanding of changes in interest rates

Question 37

Inflation is defined as .

- 1 a sustained general rise in prices
- 2 a lack of familiarity with the history of changes in the exchange rate of different currencies
- 3 the inability in the short term to obtain cash in a desired currency
- 4 fluctuations in exchange rates which affect cash flows from overseas investments

Question 38

risk deals with basic macro-economic theory together with fiscal and monetary policies

- 1 Economic
- 2 Country
- 3 Financial
- 4 Political

Question 39

Which of the following is a risk control measure in a health and safety management system?

- 1 Paying employees' salaries on time
- 2 Having an IT back-up facility at a distant location
- 3 Emergency procedures such as recovery plans following a fire
- 4 A disclaimer delivered with the products, marketed by a company

Question 40

Legal risk refers to the

- 1 risk arising from non-compliance with laws
- 2 number of competitors moving into and out of the market the business is operating in
- 3 uncertainty that stems from the exercise of power by government
- 4 exposure to a potential loss arising from diminishing sales due to changes in market conditions outside the control of the business

END OF SECTION A

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SECTION B: ESSAY QUESTIONS

[Total 30 Marks]

Answer ALL the questions in the space provided

Question 1 - Enterprise risk management in context

[10 Marks]

Ms Maria Trevor has just been appointed as the new CEO of Local Supermarket Ltd She approaches you as the risk manager to gain a better understanding of the implementation of risk management in the company

Briefly describe risk management and the seven (7) stages in the risk management process to Ms Maria Trevor to give her a better understanding of the implementation of risk management in Local Supermarket Ltd

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