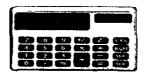## RSK2601   (473725)   May/June 2016

ENTERPRISE RISK MANAGEMENT

Duration   2 Hours   70   Marks

EXAMINERS
FIRST   MISS S MARE
SECOND   DR AT MUTEZO

Use of a non-programmable pocket calculator is permissible.

Closed book examination

This examination question paper remains the property of the University of South Africa and may not be removed from the examination venue

The examination document consists of **19 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 **473725** on the mark reading sheet.

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

SECTION A: MULTIPLE-CHOICE QUESTIONS   **[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 473725** on the mark reading sheet.

Question 1

As a consequence of the diversity of risk, risk management requires a   approach
1   narrow
2   modern
3   broader
4   traditional

Question 2

Risk management controls risk as far as possible to enable a business to maximise its
1   opportunities
2   profits
3   strengths
4   wealth

Question 3

A risk management   sets out how the risks which have been identified by the risk assessment procedure will be managed and controlled.
1   framework
2   policy
3   process
4   structure

Question 4

Enterprise Risk Management (ERM) may be defined as
1   a system aimed at satisfying stock exchange requirements
2   a reactive system which responds to events as they unfold
3   a 'tick-box' process ensuring legislation is complied with
4   a systematic process embedded in a company's system of internal control to support the fulfilling of the company's objectives.

Question 5

The board's role should be to steer the corporation towards corporate governance policies that support _____ sustainable growth in _____ value

1   long-term, stakeholder
2   long-term; shareholder
3   short-term, stakeholder
4   short-term, shareholder

Question 6

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 7

Investors are willing to pay a premium for good governance because

1   corporate governance is in the spotlight and decreases regulatory risks of an enterprise
2   it is a silo-based approach to manage increasingly interdependent risks
3   of the diversity of risk exposure
4   it is a way of reducing risk or avoiding it altogether

Question 8

Corporate governance affects various business areas Improving the confidence of domestic and international investors is an example of

1   overall performance
2   attracting lower-cost capital
3   meeting social obligations
4   employing assets efficiently

Question 9

Which one of the following activities in a company needs to be reported under the triple bottom-line principle?

1   Financial performance
2   Technological performance
3   Legal performance
4   Environmental performance.

Question 10

According to   , non-executive directors should not receive share options

1   the Companies Act (1973)
2   the Companies Act (2008)
3   King II
4   King III

Question 11

In terms of the King III Code of governance principles

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

Question 12

Company A is interested in acquiring XYZ Limited. Prior to making a decision, the board requests that management conducts a strategic review of XYZ limited and also performs the following

•   an analysis of XYZ Limited,
•   a market analysis,
•   a product, portfolio and matrix analysis, and
•   an analysis of the general environment

Which one of the following process mechanisms is Company A using?

1   PEST analysis
2   SWOT analysis
3   Financial analysis
4   Gap analysis

Question 13

A   is a statement of how the business will accomplish its business objectives

1   business process map
2   business plan
3   marketing plan
4   risk management map

Question 14

Pareto analysis is used to

1   identify those 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 15

Which stage of the ERM process is concerned with gaining an understanding regarding the background of the business as a whole as well as the specific business activities, processes or projects?

1   Risk analysis
2   Risk evaluation
3   Monitoring and review
4   Establishing the context

Question 16

Which one of the following is a regulatory framework which a business must comply with and embed in its business operations?

1   PEST analysis
2   Process mapping
3   Compliance system
4   Financial analysis tools

Question 17

A company requires all managers at various business units to make use of a standard template when identifying risks and reporting these risks to the Head Office This process activity is an example of

1   internal communication
2   external communication
3   controlling information
4   executing action plans

Question 18

A resolution strategy is used

1   by a business to evaluate the effect of uncertainty on a planned activity
2   to assess how sensitive the project outcomes are to changes in the business.
3   by a business to respond to a particular recurring risk
4   to illustrate the decision options used to arrive at a risk response category

Question 19

Which of the following are inputs for the risk treatment process?

a   Industry betas
b   Risk register
c   Risk response actions
d   Description of the business risk appetite

Choose the correct combination:

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

Question 20

Which one of the following risk response strategies uses insurance as one of the methods to respond to risk?

1   Risk retention
2   Risk transfer
3   Risk reduction
4   Risk removal

Question 21

Which stage in the ERM process must be on-going in order to increase the success of the implementation of the entire process?

1   Risk treatment
2   Risk analysis
3   Communication and consultation
4   Monitoring and review

Question 22

Risk appetite can be defined as

1   the strategy used to transfer a risk to another entity, business or organisation.
2   a reduction of risks by distribution.
3   the amount of risk a business is prepared to tolerate at any point in time
4   the elimination of a risk when a negative outcome or high-risk exposure is anticipated

Use the following information to answer questions 23 and 24.

Local Supermarket Company's total current assets, total current liabilities, and inventory for each of the past 4 years are as follows:

Item	2012	2013	2014	2015
Total Current Assets	R 17 950	R 22 900	R 23 000	R 28 000
Total Current Liabilities	R 7 000	R 12 600	R 12 600	R 18 400
Inventory	R 5 000	R 6 900	R 7 900	R 8 200

Question 23

The firm's current ratio for the year ended 2014 is

1   0 55
2   1 12
3   1 83
4   2 91

Question 24

The firm's quick ratio for the year ended 2015 is

1   0 36
2   1 08
3   1 97
4   2 75

Question 25

Scenario analysis can be used

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

Question 26

Which one of the following is **NOT** a recognised context stage tool to obtain information on the business?

1   Financial analysis
2   PEST analysis
3   Sensitivity analysis
4   SWOT analysis

Question 27

Mrs Mutezo has been appointed as the risk manager for ABC clothing Ltd Mrs Mutezo must implement a risk management process for the business Which of the following risk management stages should Mrs. Mutezo implement?

a   Establish the context, monitor and review
b   Design and improve the process
c   Risk treatment, communication and consultation
d   Risk identification, risk analysis and risk evaluation

Choose the correct combination:

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

Question 28

The ultimate responsibility for project risk management must rest with the project

1   coordinator
2   team
3   director
4   manager

Question 29

Which one of the following methods is used by a business to evaluate the effect of uncertainty on a planned activity in a range of situations and makes use of random numbers to sample from a probability distribution?

1   Latin hypercube sampling.

2   Monte Carlo simulation

3   Scenario analysis

4   Capital Asset Pricing Model (CAPM)

Question 30

Potential loss exposure arising from diminishing sales or margins as a result of changes in market conditions, outside of the control of the business, is known as   risk

1   economic

2   financial

3   market

4   strategic

Question 31

Mr Nyoka is a risk manager at Gold Mining Ltd He is approached by the board of directors to comment on the health and safety system of the business Which one of the following questions will be the most important one to be asked by Mr Nyoka to determine if Gold Mining Ltd is implementing health and safety measures correctly?

1   Is Gold Mining Ltd implementing a health and safety system which reflects the *national legislation and common practice in the mining industry?*

2   Is Gold Mining Ltd creating a sound health and safety indicator system?

3   Is Gold Mining Ltd creating measurable targets for occupational accidents and hazards in the working environment?

4   Is Gold Mining Ltd identifying common health and safety risks?

Question 32

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 offences

3   software malpractice

4   internet misuse

Question 33

The default by a small number of large customers may lead to   as a result of credit risk

1   tax evasion

2   bribery

3   insolvency

4   profits

Question 34

Failing to execute a well-thought-out strategy is an example of   risk

1   country
2   political
3   operational
4   financial

Question 35

The risk mitigation techniques for market risk will involve risk

1   identification, measurement and reporting
2   indicators, register and mapping
3   monitoring and review
4   analysis and modelling

Question 36

   is the buying of goods on the internet

1   E-mail
2   E-trade
3   E-commerce
4   E-tailer

Question 37

Ethical risk refers to

1   the breach of environmental legislation
2   moral rules and regulations governing the business world
3   the care a person should take before entering into an agreement with another party
4   exposure to events, which may result in criminal prosecution

Question 38

Political risk refers to the uncertainty that stems from

1   the exercise of power by opposition parties and the actions of isolated groups
2   small new opposition parties that have yet to obtain widespread effective support
3   the exercise of power by imprisoned opponents to the government and the actions of
     disaffected groups
4   the exercise of power by government actors and the actions of non-government
     groups

Question 39

A   policy is a government policy which makes decisions regarding the taxation, borrowing
and spending of a country

1   fiscal
2   monetary
3   economic
4   trade

Question 40

Which of the following factors can be avoided when implementing a health and safety risk management system?

a   Compensation payments

b   Civil claims

c   Decrease in insurance premiums

d   Adverse media attention

Choose the correct combination:

1   a,b

2   a,c,d

3   a,b,d

4   all of the above

END OF SECTION A

SECTION B: ESSAY QUESTIONS   [30 Marks]

Answer **ALL** the questions in the space provided

Question 1 – Introduction to ERM   (14 Marks)

Mrs Jacobs has just been appointed as the new CEO of CALL4U Ltd She approaches you as the risk manager to gain a better understanding of the implementation of enterprise risk management (ERM) within the company

Compile a report addressed to Mrs Jacobs in which you explain the elements of an ERM structure

Question 2 - Enterprise risk management process   **(10 Marks)**

2 1 Briefly explain the following six (6) **process activities** which need to take place in the risk evaluation stage   (6)

Activity	Explanation
Basic concepts of probability	
Sensitivity analysis	
Scenario analysis	

Simulation	
Monte Carlo simulation	
Latin Hypercube sampling	

2 2 Distinguish between key risk indicators and key performance indicators Use examples to elucidate your answer (4)

Question 3 - External influences: Macro factors   **(6 Marks)**

3 1 Identify four (4) sources of risk embraced within economic risk   (2)

3 2 Argue the importance of implementing economic risk management   (4)

END OF SECTION B

TOTAL 70 MARKS

DO YOUR ROUGH WORK HERE – NO ROUGH WORK WILL BE MARKED.

DO YOUR ROUGH WORK HERE – NO ROUGH WORK WILL BE MARKED.

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EXAMINATION MARK READING SHEET — EKSAMEN-MERKLEESBLAD

PART 1 (GENERAL/ALGEMEEN) DEEL 1

STUDY UNIT e.g PSY100-X
STUDIE EENHEID bv PSY100-X

INITIALS AND SURNAME
VOORLETTERS EN VAN ....

DATE OF EXAMINATION
DATUM VAN EKSAMEN

PAPER NUMBER
VRAESTELNOMMER

EXAMINATION CENTRE (E G PRETORIA)
EKSAMENSENTRUM (BV PRETORIA)

STUDENT NUMBER
STUDENTENOMMER

UNIQUE PAPER NO
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For use by examination invigilator

Vir gebruik deur eksamenopsiener

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IMPORTANT

1 USE ONLY AN HB PENCIL TO COMPLETE THIS SHEET
2 MARK LIKE THIS ⟶
3 CHECK THAT YOUR INITIALS AND SURNAME HAS BEEN FILLED IN CORRECTLY
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6 CHECK THAT THE UNIQUE NUMBER HAS BEEN FILLED IN CORRECTLY
7 CHECK THAT ONLY ONE ANSWER PER QUESTION HAS BEEN MARKED
8. DO NOT FOLD

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1 GEBRUIK SLEGS N HB POTLOOD OM HIERDIE BLAD TE VOLTOOI!
2 MERK AS VOLG ⟶
3 KONTROLEER DAT U VOORLETTERS EN VAN REG INGEVUL IS.
4 VUL U STUDENTENOMMER VAN LINKS NA REGS IN
5 KONTROLEER DAT U DIE KORREKTE STUDENTENOMMER VERSTREK HET
6. KONTROLEER DAT DIE UNIEKE NOMMER REG INGEVUL IS
7 MAAK SEKER DAT NET EEN ALTERNATIEF PER VRAAG GEMERK IS
8. MOENIE VOU NIE

PART 2 (ANSWERS/ANTWOORDE) DEEL 2

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Your mark reading sheet is marked by computer and should therefore be filled in thoroughly and correctly

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Consult the illustration of a mark reading sheet on the reverse of this page and follow the instructions step by step when working on your sheet

Instruction numbers ❶ to ❿ refer to spaces on your mark reading sheet which you should fill in as follows

❶ Write your paper code in these eight squares, for instance

P	S	Y	1	0	0	-	X

❷ The paper number pertains only to first-level courses consisting of two papers

WRITE | 0 | 1 | for the first paper and | 0 | 2 | for the second If only one paper, then leave blank

❸ Fill in your initials and surname

❹ Fill in the date of the examination

❺ Fill in the name of the examination centre

❻ WRITE the digits of your student number HORIZONTALLY (from left to right) Begin by filling in the first digit of your student number in the first square on the left, then fill in the other digits, each one in a separate square

❼ In each vertical column mark the digit that corresponds to the digit in your student number as follows [-]

❽ WRITE your unique paper number HORIZONTALLY

NB Your unique paper number appears at the top of your examination paper and consists only of digits (e g 403326)

❾ In each vertical column mark the digit that corresponds to the digit number in your unique paper number as follows [-]

❿ Question numbers 1 to 140 indicate corresponding question numbers in your examination paper The five spaces with digits 1 to 5 next to each question number indicate an alternative answer to each question The spaces of which the number correspond to the answer you have chosen for each question and should be marked as follows [-]

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