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**RSK2601 (480008)**

**MAY/JUNE 2017**

**ENTERPRISE RISK MANAGEMENT**

STUDENT NUMBER									

IDENTITY NUMBER									

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Question No	Marks					
	Examiners					
	1			2		
Section A (MCQs)						
Section B						
1						
2						
3						
Sub Total						
<b>Total</b>						

Subject  
Enterprise Risk Management

Number of paper

Date of examination

Examination centre

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**RSK2601**

( 480008)

May/June 2017

**ENTERPRISE RISK MANAGEMENT**

Duration 2 Hours

70 Marks

**EXAMINERS**

FIRST

SECOND

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Use of a non-programmable pocket calculator is permissible

Closed book examination

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The examination document consists of **20 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 **480008** on the mark reading sheet.

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

**[TURN OVER]**

**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 480008** on the mark reading sheet.

**Question 1**

Enterprise risk management (ERM) is designed to improve

- 1 capital
- 2 business profit
- 3 economic activity
- 4 business performance

**Question 2**

Which of the following are the benefits of effective risk and opportunity management?

- a Improved cost certainty
- b Higher economic returns
- c Sustainable shareholder value
- d Aligning risk appetite and strategy

**Choose the correct combination:**

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

**Question 3**

Which element in the ERM structure provides the foundation and arrangement for embedding risk management throughout the organisation at all levels?

- 1 Internal control
- 2 Risk management process
- 3 Corporate governance
- 4 Risk management framework

**Question 4**

Which stage in the risk management framework requires a periodic review with stakeholders on whether the risk management policy, plan or process requires amendment as a result of changes in the organisation's context?

- 1 Mandate and commitment
- 2 Implement framework
- 3 Monitor framework
- 4 Improve framework

**[TURN OVER]**

**Question 5**

The risk management policy should specifically state its

- a Objectives
- b Limitations on disclosure
- c Where it applies within the organisation
- d Frequency of review

**Choose the correct combination:**

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

**Question 6**

According to King III

- a a financial director must be appointed to the board for listed companies as from 2009
- b non-executive directors could receive share options based on prior approval
- c a minimum of three executive directors should be appointed to the board
- d the memorandum of incorporation of the company should allow the board to remove any director from the board

**Choose the correct combination.**

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

**Question 7**

The purpose of corporate governance is to

- 1 maximise the wealth of its shareholders
- 2 assist an organisation in integrating risk management into its management processes so that it becomes a routine activity
- 3 ensure board oversight of business operations and prudent management that can deliver the long-term success of the company
- 4 provide reasonable assurance regarding the achievement of objectives in reliable financial reporting

**Question 8**

Effective corporate governance

- 1 promotes the inefficient use of resources
- 2 delays overall performance
- 3 ensures adherence to legislation
- 4 attracts higher cost of capital

[TURN OVER]

**Question 9**

According to King III an independent non-executive director

- a is not a member of the immediate family of an individual who is employed by the company in an executive capacity
- b is not a representative of a shareholder who has the ability to significantly influence management
- c is not a professional advisor to the company other than in a director capacity
- d does not receive remuneration contingent upon the performance of the company

**Choose the correct combination:**

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

**Question 10**

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 11**

Investors are willing to pay a premium for good governance because

- 1 corporate governance is in the spotlight and decreases regulatory risks of an organisation
- 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 12**

Lucy has been appointed as the risk manager for A-Z clothing Ltd. Lucy must implement a risk management process for the business. Which of the following risk management stages should Lucy implement?

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

**Choose the correct combination:**

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

**Question 13**

is used to examine the business environment to identify changes and potential risks and prepare for them

- 1 PEST
- 2 SWOT
- 3 Ratios
- 4 SMART

**Question 14**

can be used to identify the main risks linked to a certain activity or project of the business

- 1 Gap analysis
- 2 PEST analysis
- 3 Risk taxonomy
- 4 SWOT analysis

**Question 15**

The purpose of risk analysis is to

- 1 prevent problems by determining the root cause
- 2 provide a judgement of the likelihood of the risks and opportunities occurring and their impact, should they materialise
- 3 assist an organisation in integrating risk management into its management processes so that it becomes a routine activity
- 4 identify the risks to the business which would produce or remove the likelihood of the business reaching its objectives and opportunities

**Question 16**

is used to prepare for the possible worst case to best case situation

- 1 Brainstorming
- 2 Delphi technique
- 3 Scenario analysis
- 4 Structured interviews

**Question 17**

Lucy did not insure some of her risks because there are control measures already in place to absorb these risks. What is the risk response strategy that Lucy has undertaken?

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

**Question 18**

The process inputs in the risk analysis stage consists of

- 1 Risk identification, risk recordings and risk checklists
- 2 Probability trees, utility theory, the Markov chain method and investment appraisals
- 3 A risk register, risk checklist, risk prompt list and gap analysis
- 4 Risk identification, risk recordings, profit and loss account statements, balance sheet and industry beta analysis

**Question 19**

Which of the following are the techniques that a facilitator can adopt in an interactive workshop?

- a Risk questionnaire
- b Financial analysis tools
- c Brainstorming process
- d Scenario analysis

**Choose the correct combination:**

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

**Question 20**

Risk tolerance of an organisation can be expressed in terms of

- 1 risk averse, risk neutral and risk seeking attitudes
- 2 capital, earnings variances, liquidity and balance sheet activities and guidelines for investment
- 3 risk information, high impacts and high probabilities, balance sheet activities and capital
- 4 income statements, balance sheet activities, cash flow statements and budget statements

**Question 21**

\_\_\_\_\_ is a technique to employ when evaluating the profitability of an investment proposal for a particular project

- 1 Simulation
- 2 Percentiles
- 3 Sensitivity analysis
- 4 Monte Carlo simulation

**Question 22**

The monitoring and review stage

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

**Question 23**

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

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

**Question 24**

The difference between the initial investment amount and the present value of a project's expected future cash flows, discounted at the appropriate cost of capital is the

- 1 Net Present Value
- 2 Internal Rate of Return
- 3 Payback Period
- 4 Average Rate of Return

**Question 25**

Key Risk Indicators (KRIs)

- 1 are statistical information on the business risk reporting processes
- 2 are useful views of underlying risk profiles at various levels to assist in decision making
- 3 are used to measure a business's health and performance
- 4 assist with business planning and decision making

**Question 26**

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

- 1 Industry betas
- 2 Human resource plan
- 3 Profit and loss account
- 4 Risk register



**Question 27**

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

**Question 28**

A company will stay solvent by ensuring that all

- 1 current assets exceed current liabilities
- 2 assets are converted into money without loss of value
- 3 cash obligations can be met by a combination of investment liquidity, funding sources and contingent liabilities
- 4 current assets are converted into cash in order to pay the current and long-term liabilities of the organisation

**Question 29**

Information technology risks include

- 1 lack of observance of rules set by a regulatory body
- 2 unauthorized access or disclosure of data and data corruption
- 3 floods, fires and other natural disasters and terrorist activities
- 4 the loss arising from legal action against an organisation for inadequate practices

**Question 30**

Transcor is a transport company which delivers goods across all nine provinces in South Africa. Transcor has an agreement with Avis Truck Rental to provide them with rental trucks in the event of their trucks being damaged or vandalised during protest actions. This is called a(an)

- 1 business continuity plan
- 2 leasing of property plan
- 3 lease agreement contract
- 4 outsourcing service delivery contract

**Question 31**

Brian received a feeding scheme tender through the means of bribery. This tender has resulted in his business to grow and he made a huge profit. Brian's way of getting business is

- 1 ethical
- 2 honest
- 3 unethical
- 4 intelligent

**Question 32**

Health and safety management in an organisation helps to avoid

- a the use of child labour
- b compensation payments due to workplace accidents
- c decreasing insurance premiums
- d adverse media attention which could damage an organisation's reputation

**Choose the correct combination.**

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

**Question 33**

The macro marketing environment consists of which of the following factors?

- 1 Environmental, society, competitive, health and safety factors
- 2 Competitive, political, demographical and technological factors
- 3 Cultural, wealth, market, industry, sustainability, legal and regulatory factors
- 4 Operational, market, economic, competitive and environmental factors

**Question 34**

A country's inability to meet its financial obligations determines its risk

- 1 political
- 2 country
- 3 liquidity
- 4 economic

**Question 35**

Which of the following examples are specific areas of concern for an organisation relating to operational risk?

- a Insourcing where firms take on the operational risks of their third parties
- b Highly automated and integrating technology that has the potential to transform risks from minor manual processing errors to major systematic failures
- c The growth of e-commerce that brings with it some new and potentially significant operational risks for both consumers and firms
- d Firms that outsource their activities may suffer some loss of control over them, which could affect the quality and availability of their products

**Choose the correct combination.**

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

**Question 36**

Project risk management refers to the

- 1 risk exposure of losses resulting from people, processes, systems and external events
- 2 management of risk exposures in projects in the pursuit of achieving predefined goals
- 3 protection and enhancement of share value to satisfy the other internal controls
- 4 management of investments in technology to achieve business objectives and optimise investment benefits

**Question 37**

Which of the following factors could result in or predict corporate failure?

- a Low profit margin
- b Instability in earnings
- c Sharp increase in the price of stock or bond price
- d A lack in management quality

**Choose the correct combination:**

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

**Question 38**

Currency risk is concerned with

- 1 inability in the short-term to obtain cash in a desired currency
- 2 not having a cash surplus to respond to sudden or unexpected liquidity problems
- 3 fluctuations in exchange rates which affects cash flows from overseas investments
- 4 a lack of familiarity with the history of changes in the exchange rate of different currencies

**Question 39**

Graham Capital is in the process of obtaining a loan from XWX Bank. Which of the following factors must Graham Capital take into consideration?

- a Interest rate at commencement of the loan
- b Interest rate at the end term of the loan
- c Duration of payment
- d Nature of the interest rate

**Choose the correct combination:**

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

**Question 40**

Which of the following are the sources of risks considered to be embraced within financial risk?

- a System risk
- b Operational risk
- c Interest risk
- d Funding risk

**Choose the correct combination.**

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

**END OF SECTION A**

**[TURN OVER]**







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

2.1 Briefly identify and explain four (4) **process activities** which need to take place in the risk identification stage (8)

Activity	Explanation

**[TURN OVER]**







**DO YOUR ROUGH WORK HERE - NO ROUGH WORK WILL BE MARKED.**



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

**USE ONLY AN HB PENCIL TO COMPLETE YOUR MARK READING SHEET**

*PLEASE DO NOT FOLD OR DAMAGE YOUR MARK READING SHEET*

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 ① to ⑩ refer to spaces on your mark reading sheet which you should fill in as follows

- ① Write your paper code in these eight squares, for instance

P	S	Y	1	0	0	-	X
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- ② The paper number pertains only to first-level courses consisting of two papers

WRITE 

0	1
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 for the first paper and 

0	2
---	---

 for the second. If only one paper, then leave blank

- ③ Fill in your initials and surname
- ④ Fill in the date of the examination
- ⑤ Fill in the name of the examination centre
- ⑥ 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
- ⑦ In each vertical column mark the digit that corresponds to the digit in your student number as follows [-]
- ⑧ 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)
- ⑨ In each vertical column mark the digit that corresponds to the digit number in your unique paper number as follows [-]
- ⑩ 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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Examination period

Student number

Surname

First Names

Subject

Code of paper

Number of paper

Centre

Date

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Signature of invigilator

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Examination period

Student number

Surname

First Names

Subject

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UNISA invigilator's personnel number

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