UNISA EXAM MEMO RSK2601 MAYJUNE 2014

SECTION A (40 MARKS)

1. 3	11. 3	21. 4	31. 3
2. 1	12. 4	22. 1	32. 1
3. 3	13. 3	23. 3	33. 2
4. 1	14. 2	24. 3	34. 4
5. 4	15. 1	25. 1	35. 1
6. 2	16. 4	26. 3	36. 2
7. 3	17. 1	27. 2	37. 2
8. 2	18. 2	28. 3	38. 1
9. 2	19. 3	29. 1	39. 1
10. 4	20. 2	30. 4	40. 4

SECTION B (30 MARKS)

Question 1 (10 marks)

Risk management framework
The risk management framework is a basic conceptual structure used to address the risks faced by an organisation. The purpose of the risk management framework is to assist an organisation in integrating risk management into its management process so that it becomes a routine activity. The framework is composed of the following five steps:

- Mandate and commitment
- Design framework
- Implement framework
- Monitor framework
- Improve framework.

Risk management policy
A risk management policy sets out how the risks, which have been identified by the risk assessment procedure, will be managed and controlled. The risk management policy assigns responsibility for performing key tasks, establishes accountability with the appropriate managers, defines boundaries and limits and formalises reporting structures. The policy should address specific responsibilities of the board, internal audit, external audit, the risk committee, the corporate governance committee, the central risk function, employees and third party contractors in implementing risk management. A policy statement defines a general commitment, direction or intention. A policy on risk management expresses an organisation's commitment to risk management and clarifies its general direction or intention.

Risk management process
According to International Risk Standard, ISO 31000 (2009), a risk management process is one that systematically applies management policies, procedures, and practices to a set of activities intended

to establish the context, communicate and consult with stakeholders, and identify, analyse, evaluate, treat, monitor, and review risk.

Question 2 (14 marks)

2.1 (8 marks)

Risk reduction

Risk reduction can also be referred to as treatment or mitigation. Risk reduction can be seen as risk diversification (reduction of risks by distribution) for example, where a business invests in multiple stocks to reduce risk and the impact of the risk. Two approaches to reduce risk can be followed namely:

- reducing the likelihood of a risk occurring, and;
- Limiting the loss should the risk materialise.

Methods used to reduce the likelihood of occurrence or impact of risk by a business is protection, controls, maintenance and risk spreading.

Risk removal

Risk removal can also be referred to as avoidance, elimination, exclusion and termination. Risk removal is used to eliminate a risk when a negative outcome/impact or high-risk exposure is anticipated. For example, doing business with a country that has political uncertainty may be too risky to make the opportunity worthwhile (a potential for loss has been eliminated). When a business wants to remove risk, factors such as opportunity, business objectives and costs involved must be considered. All three of these concepts must be taken into regard. For example, when a business decides not to introduce a new product or ending the production of an existing product and ceasing operations that have been carried out in the past.

Risk reassignment or transfer

Risk reassignment is the strategy used to transfer risk to another entity, business or organisation. Businesses can use contracts and financial agreements to transfer risk to a third party. Risk transfer does not reduce the severity of the risk but does increase the impact of the risk. The most common method of risk transfer is insurance. For example the financial consequences of the loss is transferred to the insurance company. When a business transfers risk the business must consider the objectives of the parties, ability to manage the risk, risk context and cost effectiveness of the transfer.

Risk retention

Risk retention is also referred to as acceptance, absorption or tolerance. A business can be in the position to only be able to accept the risk as the alternative methods, for example risk removal, reduction and transfer are not available; or it can be more economical to the business to accept the risk. In the risk retention strategy the options available, timing and the ability to absorb the risk must be considered.

2.2 (6 marks)

KRI's
KRI's refer to captured information that provides useful views of underlying risk profiles at various levels to assist decision makers within a business. The following can be seen as the four types of KRI's:

- Inherent or exposure risk indicators.
- Control risk indicators.
- Composite indicators.
- Model risk factors.

KPI's
KPI's refer to high level snapshots of the health and performance of a business based on specific predefined measures for example statistical information on the business. The following can be seen as seven types of KPI's:

- Statutory KPI's, such as GAAP 9 or legal regulatory requirements.
- Profitability per business unit/product/customer.
- Exception reporting.
- Employee performance, such as assets under management or profit per customer.
- Competitiveness, such as market share.
- Cost management, such as return on assets (ROA) on IT or new delivering channel monitoring.
- Credit management, such as time to settlement or credit exposure.

Question 3 (6 marks) (any 6)

- Lack of clearly defined and disseminated risk management objectives
- Lack of senior executive and project director commitment and support
- Lack of risk maturity model
- Lack of a change process to introduce the discipline
- No common risk language (terms and definitions)
- Lack of articulation of the project sponsor's risk appetite
- No definition of roles and responsibilities

- Lack of risk management awareness training to build core competencies
- Lack of integration of risk management with other project disciplines
- Reticence of project personnel to spend time on risk management
- Risk owners not automatically taking responsibility for assigned risks
- No clear demonstration of how risk management adds value and contributes to project performance
- Overcomplicated implementation from an unclear risk policy, strategy, framework, plan and procedure
- Lack of alignment between the business strategy, business model and the risk management objectives
- Lack of the integration of risk management activities into the day-today activities of project managers

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