

CIMA 2019 Professional Examinations

Strategic Level

Subject P3

Risk Management

EXAM PRACTICE KIT



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OBJECTIVE TEST QUESTIONS

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EXAM TECHNIQUES

COMPUTER-BASED ASSESSMENT

Golden rules

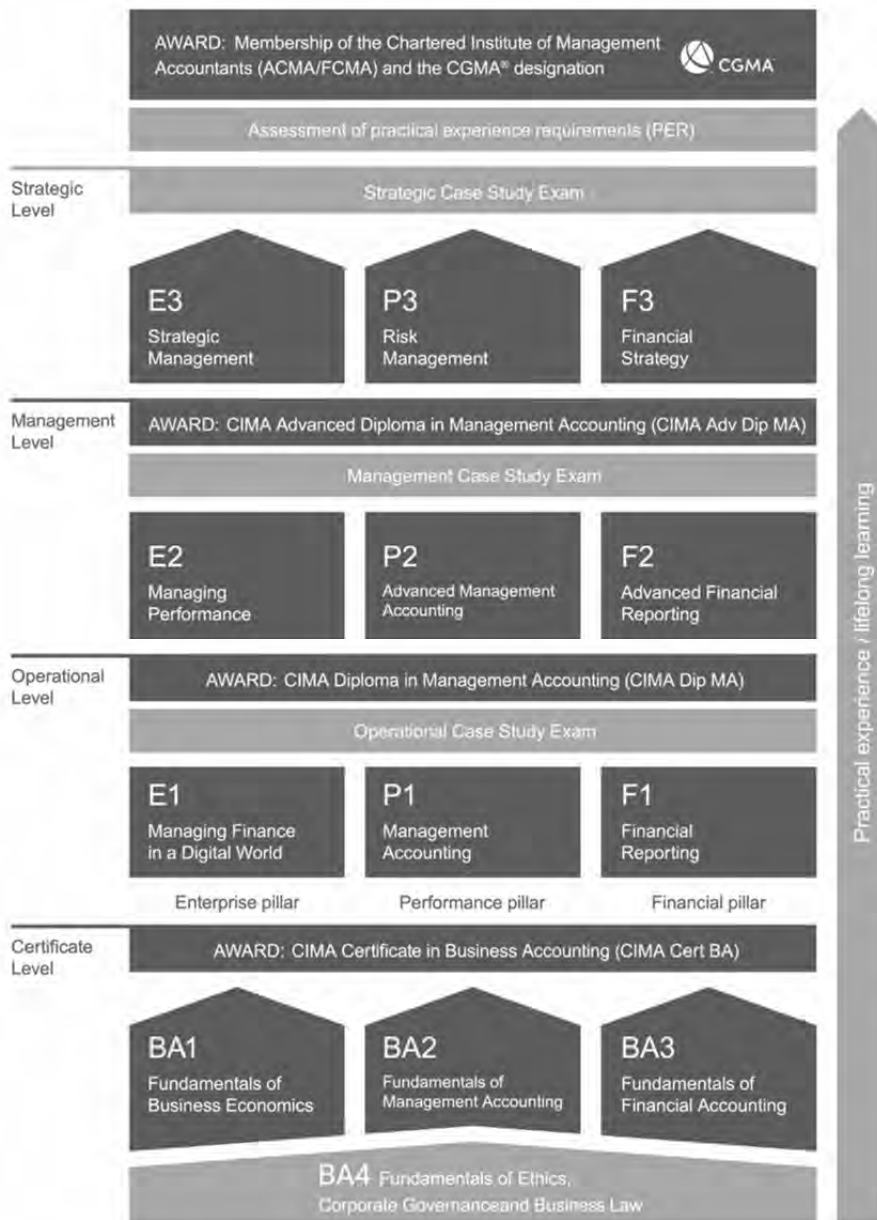
- 1 Make sure you have completed the compulsory 15-minute tutorial before you start the test. This tutorial is available through the CIMA website and focusses on the functionality of the exam. You cannot speak to the invigilator once you have started.
- 2 These exam practice kits give you plenty of exam style questions to practise so make sure you use them to fully prepare.
- 3 Attempt all questions, there is no negative marking.
- 4 Double check your answer before you put in the final answer although you can change your response as many times as you like.
- 5 Not all questions will be multiple choice questions (MCQs) – you may have to fill in missing words or figures.
- 6 Identify the easy questions first and get some points on the board to build up your confidence.
- 7 Attempt 'wordy' questions first as these may be quicker than the computation style questions. This will relieve some of the time pressure you will be under during the exam.
- 8 If you don't know the answer, flag the question and attempt it later. In your final review before the end of the exam try a process of elimination.
- 9 Work out your answer on the whiteboard provided first if it is easier for you. There is also an onscreen 'scratch pad' on which you can make notes. You are not allowed to take pens, pencils, rulers, pencil cases, phones, paper or notes into the testing room.

SYLLABUS GUIDANCE, LEARNING OBJECTIVES AND VERBS

A CIMA 2019 PROFESSIONAL QUALIFICATION

Details regarding the content of the CIMA 2019 professional qualification can be located within the CIMA 2019 professional qualification syllabus document.

You can use the following diagram showing the whole structure of your qualification to help you keep track of your progress. Make sure you carefully review the 2019 CIMA syllabus transition rules and seek appropriate advice if you are unsure about your progression through the qualification.



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B STUDY WEIGHTINGS

A percentage weighting is shown against each exam content area in the exam blueprint. This is intended as a guide to the proportion of study time each topic requires.

All component learning outcomes will be tested.

The weightings do not specify the number of marks that will be allocated to topics in the examination.

C LEARNING OUTCOMES

Each subject within the qualification is divided into a number of broad syllabus topics. The topics contain one or more lead learning outcomes, related component learning outcomes and indicative knowledge content.

A learning outcome has two main purposes:

- 1 to define the skill or ability that a well-prepared candidate should be able to exhibit in the examination
- 2 to demonstrate the approach likely to be taken by examiners in examination questions.

The learning outcomes are part of a hierarchy of learning objectives. The verbs used at the beginning of each learning outcome relate to a specific learning objective, e.g. Evaluate alternative approaches to budgeting.

The verb 'evaluate' indicates a high-level learning objective. As learning objectives are hierarchical, it is expected that at this level students will have knowledge of different budgeting systems and methodologies and be able to apply them.

The examination blueprints and representative task statements

CIMA have also published examination blueprints giving learners clear expectations regarding what is expected of them. This can be accessed here www.cimaglobal.com/examblueprints

The blueprint is structured as follows:

- Exam content sections (reflecting the syllabus document)
- Lead and component outcomes (reflecting the syllabus document)
- Representative task statements.

A representative task statement is a plain English description of what a CIMA finance professional should know and be able to do.

The content and skill level determine the language and verbs used in the representative task.

CIMA will test up to the level of the task statement in the objective test (an objective test question on a particular topic could be set at a lower level than the task statement in the blueprint).

The format of the objective test blueprints follows that of the published syllabus for the 2019 CIMA Professional Qualification.

Weightings for content sections are also included in the individual subject blueprints.

A list of the learning objectives and the verbs that appear in the syllabus learning outcomes and examinations follows and these will help you to understand the depth and breadth required for a topic and the skill level the topic relates to.

CIMA verb hierarchy

Skill level	Verbs used	Definition
Level 5 Evaluation How you are expected to use your learning to evaluate, make decisions or recommendations	Advise Assess Evaluate Recommend Review	Counsel, inform or notify Evaluate or estimate the nature, ability or quality of Appraise or assess the value of Propose a course of action Assess and evaluate in order, to change if necessary
Level 4 Analysis How you are expected to analyse the detail of what you have learned	Align Analyse Communicate Compare and contrast Develop Discuss Examine Interpret Monitor Prioritise Produce	Arrange in an orderly way Examine in detail the structure of Share or exchange information Show the similarities and/or differences between Grow and expand a concept Examine in detail by argument Inspect thoroughly Translate into intelligible or familiar terms Observe and check the progress of Place in order of priority or sequence for action Create or bring into existence
Level 3 Application How you are expected to apply your knowledge	Apply Calculate Conduct Demonstrate Prepare Reconcile	Put to practical use Ascertain or reckon mathematically Organise and carry out Prove with certainty or exhibit by practical means Make or get ready for use Make or prove consistent/compatible
Level 2 Comprehension What you are expected to understand	Describe Distinguish Explain Identify Illustrate	Communicate the key features of Highlight the differences between Make clear or intelligible/state the meaning or purpose of Recognise, establish or select after consideration Use an example to describe or explain something
Level 1 Knowledge What you are expected to know	List State Define Outline	Make a list of Express, fully or clearly, the details/facts of Give the exact meaning of Give a summary of

D OBJECTIVE TEST

Objective test

Objective test questions require you to choose or provide a response to a question whose correct answer is predetermined.

The most common types of objective test question you will see are:

- Multiple choice, where you have to choose the correct answer(s) from a list of possible answers. This could either be numbers or text.
- Multiple response, for example, choosing two correct answers from a list of eight possible answers. This could either be numbers or text.
- Fill in the blank, where you fill in your answer within the provided space.
- Drag and drop, for example, matching a technical term with the correct definition.
- Hot spots, where you select an answer by clicking on graphs/diagrams.

Guidance re CIMA on-screen calculator

As part of the CIMA objective test software, candidates are now provided with a calculator. This calculator is on-screen and is available for the duration of the assessment. The calculator is available in each of the objective tests and is accessed by clicking the calculator button in the top left hand corner of the screen at any time during the assessment. Candidates are permitted to utilise personal calculators as long as they are an approved CIMA model. CIMA approved model list is found here: <https://www.cimaglobal.com/Studying/study-and-resources/>.

All candidates must complete a 15-minute exam tutorial before the assessment begins and will have the opportunity to familiarise themselves with the calculator and practise using it. The exam tutorial is also available online via the CIMA website. Candidates can use their own calculators providing it is included in CIMA's authorised calculator listing.

Fundamentals of objective tests

The objective tests are 90-minute assessments comprising 60 compulsory questions, with one or more parts. There will be no choice and all questions should be attempted. All elements of a question must be answered correctly for the question to be marked correctly. All questions are equally weighted.

SYLLABUS GRIDS

P3: Risk Management

Analyse, evaluate and manage strategic, operational and cyber risks

Content weighting

Content area		Weighting
A	Enterprise risk	25%
B	Strategic risk	25%
C	Internal controls	25%
D	Cyber risk	25%
		100%

P3A: Enterprise risk

Not all intended strategies are implemented due to various factors. These factors constitute the operating enterprise-wide risks of the organisation. This section covers how to identify, evaluate and manage these risks.

Lead outcome	Component outcome	Topics to be covered	Explanatory notes
1. Analyse sources and types of risk.	Analyse: a. Sources of risks b. Types of risks	<ul style="list-style-type: none"> Upside and downside risks Risks arising from internal and external sources Risks arising from international operations Strategic and operational risks 	What are the types and sources of risks that would prevent organisations from implementing their intended strategy?
2. Evaluate risk.	a. Evaluate the impact of risk b. Assess the likelihood of risks c. Analyse the interaction of different risks	<ul style="list-style-type: none"> Quantification of risk exposure Risk maps 	What is the impact of the risks on the organisation? What techniques are available to evaluate the impact of such risks?
3. Discuss ways of managing risks.	Discuss: a. Roles and responsibilities b. Risk tolerance, appetite and capacity c. Risk management frameworks d. Risk analytics	<ul style="list-style-type: none"> Role of board and others in the organisation for identifying and managing risks Risk mitigation including TARA – transfer, avoid, reduce, accept Assurance mapping Risk register Risk reports and responses Ethical dilemmas associated with risk management 	How is risk managed in the organisation? How is responsibility for various aspects of risk management distributed in the organisation? How does the organisation align its risk tolerance, appetite and capacity to its decisions and actions? What risk management frameworks are there? How is risk information communicated to the organisation?

P3B: Strategic risk

A fundamental risk of the organisation is that its strategy is the wrong one and that even if implemented perfectly, it will achieve the wrong outcome for the organisation. In addition, some risks are of such high significance that they can affect the very existence of the organisation. This section covers where these risks emanate from, evaluates them and explains how oversight of such risks is critical to the governance of the organisation.

Lead outcome	Component outcome	Topics to be covered	Explanatory notes
1. Analyse risks associated with formulating strategy.	a. Analyse relevance of the assumptions on which strategy is based. b. Discuss potential sources and types of disruptions to strategy.	<ul style="list-style-type: none"> Analysis of strategic choice Scenario planning Stress-testing strategy 	What are the risks that the strategy of the organisation is wrong? What are the sources of such risks? How does the organisation evolve its strategy in a dynamic environment to keep it relevant?
2. Evaluate the sources and impact of reputational risks.	Evaluate: a. Sources of reputational risk b. Impact of reputational risk on strategy	<ul style="list-style-type: none"> Risks of unethical behaviour Impact on brand and reputation of organisation 	What is reputational risk and why is it an important strategic risk? What are the types and sources of reputational risks and what is their impact on the organisation? How can they be managed?
3. Explain governance risks.	Explain: a. The role of board and its committees in managing strategic risk b. Failure of governance and its impact on strategy	<ul style="list-style-type: none"> Separation of the roles of CEO and chairman Role of non-executive directors Roles of audit committee, remuneration committee, risk committee and nomination committee Directors' remuneration 	What is the role of the board in risk management? How does governance risk occur? How is this role governed by the various corporate governance codes and principles?

P3C: Internal controls

Control systems are an integral part of managing risks. Various control frameworks have been developed to assist in this process. In addition, the internal audit function performs a vital role in helping to implement and monitor implementation and adherence to the control frameworks. This section covers how internal control systems can be used effectively in the risk management process.

Lead outcome	Component outcome	Topics to be covered	Explanatory notes
1. Analyse internal control systems.	a. Discuss roles and responsibilities for internal controls. b. Discuss the purpose of internal control. c. Analyse the features of internal control systems.	<ul style="list-style-type: none"> • Role of risk manager as distinct from internal auditor • Control systems in functional areas • Operational features of internal control 	What are the roles of internal control systems in managing risks? What are its key features and why?
2. Recommend internal controls for risk management.	a. Discuss the Committee of Sponsoring Organisations of the Treadway Commission (COSO) internal control and risk management framework. b. Assess control weakness. c. Assess compliance failures. d. Recommend internal controls for risk management.	<ul style="list-style-type: none"> • Governance and culture • Strategy and objective setting • Performance • Review and revision • Information, communication and reporting • Identifying and evaluating control weakness and compliance failures 	This introduces the COSO framework as a comprehensive way of looking at internal controls in risk management. The objective is to get candidates to understand the key elements and know how to apply them in evaluating internal controls.
3. Discuss various issues relating to internal audit in organisations.	Discuss: a. Forms of internal audit b. Internal audit process c. Effective internal audit d. The internal audit report	<ul style="list-style-type: none"> • Compliance audit, fraud investigation, value for money audit and management audit • Operation of internal audit • Assessment of audit risk • Process of analytical review • Independence, staffing and resourcing of internal audit • Preparation and interpretation of internal audit reports 	This part looks at the critical role that the internal audit function can play in risk management. The objective is to create awareness and understanding of the various issues in internal audit and how they link to each other.

P3D: Cyber risks

In a digital world one of the major threats is cyber risk. How are data and operating systems protected from unauthorised access and manipulation? How are breaches identified, analysed, remedied and reported? These are some of the questions covered in this section.

Lead outcome	Component outcome	Topics to be covered	Explanatory notes
1. Analyse cyber threats.	Analyse: a. Nature and impact of cyber risks b. Types of cyber risks c. Risk of security vulnerabilities.	<ul style="list-style-type: none"> Malware Application attacks Hackers Result of vulnerabilities including downtime, reputational loss, customer flight, legal and industry consequences 	This part looks at where and how organisations can be vulnerable to cyber threats and the type and sources of such threats. In addition, it looks at the impact such threats can have on organisations.
2. Review cyber security processes.	Review: a. Cyber security objectives b. Security controls c. Centralisation in cyber security	<ul style="list-style-type: none"> Protection, detection and response Centralised management Centralised monitoring 	The principal aim here is to enable candidates to understand how to manage cyber threats through cyber security processes. What objectives should organisations set in this area? What controls are available to organisations?
3. Discuss cyber security tools and techniques.	Discuss: a. Forensic analysis b. Malware analysis c. Penetration testing d. Software security	<ul style="list-style-type: none"> System level analysis, storage analysis and network analysis Reverse engineering, decompilation and disassembly Network discovery, vulnerability probing, exploiting vulnerabilities Tiers of software security 	This part looks at the tools and techniques available to manage cyber risks. Candidates are expected to have a basic understanding of the techniques and how they can be deployed together.
4. Evaluate cyber risk reporting.	a. Evaluate cyber risk reporting frameworks	<ul style="list-style-type: none"> Description criteria including nature of business and operations, nature of information at risk, risk management programme objectives, cybersecurity risk governance structure etc. 	How should cyber risks be reported? What reporting frameworks are available?

Section 1

OBJECTIVE TEST QUESTIONS

ENTERPRISE RISK

1 Which one of the following sentences best describes risk?

- A The exposure to the adverse consequences of dangerous environments
- B The expected impact of uncertain future events on objectives
- C The chance of being caught doing something unethical
- D The impact of the exposure to the adverse consequences of uncertain future events

2 Risk management is the process of reducing the adverse consequences either by reducing the _____ of an event or its _____.

What are the two missing words?

- A Understanding and impact
- B Likelihood and potential
- C Understanding and potential
- D Likelihood and impact

3 Risk appetite is determined by

- A Risk attitude and risk awareness
- B Risk attitude and risk capacity
- C Risk strategy and risk awareness
- D Risk attitude and residual risk

4 The four strategies in TARA for managing risk do NOT include which one of the following?

- A Transference
- B Approval
- C Avoidance
- D Acceptance

5 Risks can be categorised as either 'pure', 'speculative' or 'upside'. Drag and drop the following risks into the correct category.

	Pure risks	Speculative risks
The risk that a fire may destroy company assets		
The risk that a customer goes out of business		
The risk that a foreign exchange rate may change		
The risk relating to the level of future profits		
The risk that a capital investment may not yield the predicted IRR		
The risk that a virus is introduced to a computer application		

6 There are six steps in CIMA's risk management cycle. Identify the correct sequence of steps, by entering step numbers below.

Development of risk response strategy	
Implement strategy and allocate responsibilities	
Review and refine process and do it again	
Identify risk areas	
Implementation and monitoring of controls	
Understand and assess scale of risk	

7 Match each of the following risks to the appropriate risk category.

Risk category
Business risks
Economic risks
Environmental risks
Financial risks

Risk
Inflation rate rises
Exchange rate changes
Failure of a new product
Rate of climate change increases

8 Match each of the following risks to the appropriate risk category.

Risk category
Business risks
Economic risks
Corporate reputation risks
Political risks

Risk
CEO convicted of insider dealing
Disposable income levels fall
Nationalisation of industry
Raw material prices rise