CIPS Level 5 – Advanced Diploma in Procurement and Supply

Managing Supply Chain Risk [L5M2]

Sample Exam Questions (Objective Response)

The correct answer will be listed below each question
Q1. A supplier’s terms and conditions include provision in respect of tsunami, earthquakes and volcanic eruption. This type of provision is known as ...

   a. a liquidated damages clause
   b. **an exclusion clause**
   c. an indemnity clause
   d. an insurance provision clause

LO: 1  
AC: 1.2  
Correct answer: B

Q2. ManCo Inc is a global manufacturing organisation. It has a highly integrated supply chain. All parties are interconnected with the result that data availability and transparency are high. Its CPO however is concerned about technological risk. Which of the following is such a risk for ManCo?

   a. Cyber crime
   b. Global economics
   c. Labour standards
   d. Economic uncertainty

LO: 1  
AC: 1.1  
Correct answer: A

Q3. Product Manufacturing Group (PMG) is UK based and has just started sourcing materials from Europe and has to pay its supplier in Euros. This is PMG’s first exposure to Euro denominated payments. It does however sell its products into European markets and has Euro receivables. Which of the following will be the most appropriate for PMG to manage its Euro currency risk exposure?

   a. Forward contract
   b. Swap
   c. Currency account
   d. Option

LO: 1  
AC: 1.2  
Correct answer: C
Q4. The Sarbanes-Oxley regulations are mostly focused on:
1. Investor protection
2. Product quality
3. Clear commercial advertising
4. Corporate financial disclosure
   a. 2 and 3 only
   b. 1 and 2 only
   c. 3 and 4 only
   d. 1 and 4 only

LO: 1
AC: 1.3
Correct answer: D

Q5. Which of the following are potential risks that are directly associated with a company's brand?
1. Marketing
2. Reputation
3. Positioning
4. Support
   a. 1 and 2 only
   b. 2 and 3 only
   c. 3 and 4 only
   d. 1 and 4 only

LO: 1
AC: 1.4
Correct answer: B
Q6. Is it usual to encourage whistle-blowing amongst employees working in the supply chain if they suspect unethical behaviour in the supply chain?

a. Yes, because these staff are more likely to be aware of such malpractices
b. Yes, because they will always know if there is unethical behaviour
c. No, because there is usually no means of them doing so confidentially
d. No, because in many countries this will be illegal as it is confidential information

LO: 1
AC: 1.3
Correct answer: A

Q7. A procurement manager is responsible for a high-risk and medium-value contract for which the procurement organisation is critically dependent on the supplier. The procurement manager has instructed the supplier to submit a disaster recovery plan. Is this action appropriate?

a. Yes - disaster recovery plans should be a standard requirement for all suppliers on all contracts
b. No - the procurement manager is responsible for creating the disaster recovery plan
c. No - disaster recovery planning is only required on high-risk and high-value contracts
d. Yes - the plan will show how the supplier will continue to operate and deliver the service in a disaster situation

LO: 2
AC: 2.2
Correct answer: D
Q8. Recognised risk management strategies to mitigate risks include which of the following? Select TWO that apply.

   a. Treat
   b. Trust
   c. Translate
   d. Test
   e. Transfer

LO: 3
AC: 3.4
Correct answer: A & E

Q9. Software Development Inc (SDI) develops and markets a range of business applications and products. It has its own product development resource but also uses external contractors where expertise is not available in house. SDI is just about to start working with a small organisation called XNX Developers (XNX) on a highly secret new development currently known as Project Y. SDI and XNX have worked together successfully in the past. Ultimately, when the development is completed, SDI will pay XNX a one-off fee for exclusive and full ownership of Project Y.

XNX is happy with this arrangement as it needs an injection of funds to support the development of its own product range and bank finance is not available. SDI and XNX have also reached agreement on XNX’s acceptance to compensate SDI for potential future liability on Project Y in respect of the development work it has undertaken.

Based on the information provided, which of the following clauses will be a priority for SDI to include in the contract to address its specific needs?

1. Intellectual property rights
2. Force majeure
3. Jurisdiction
4. Indemnity

   a. 1 and 2 only
   b. 2 and 3 only
   c. 3 and 4 only
   d. 1 and 4 only

LO: 2
AC: 2.1
Correct answer: D
Q10. Pharma Group Chemicals (PGC) is conducting a review of its key contracts, part of which involves a detailed risk assessment of supplier and supply chain risks in respect of a number of its most important products. PGC’s CPO is anxious to ensure that changes in PGC’s external environment are closely monitored and any risks arising from the changes are acted on accordingly. The findings in respect of PGC’s top five products are:

Product 1 – Most significant exposure is to exchange rate fluctuations. Recommended that currency options are used.

Product 2 – The countries where the product is used have changing population age profiles which could impact on demand. However, this is not a significant risk so the recommendation is to do nothing at this stage.

Product 3 – We have been aware of previous mistreatment of workers within the supply chain. Despite our best efforts this does not seem to have been resolved, the supplier has been informed that the contract will be ended and the contingency supplier used given their track record of impeccable conduct.

Product 4 – Local government interference has been a problem on this contract. Third party guarantees are to be taken to help manage the risk.

For each of the products, you are required to match the external factors with the risk action taken. Choose from these options and drag and drop your answers into the table below. [8]

You can only use each option once.

<table>
<thead>
<tr>
<th>External Factor</th>
<th>Risk Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demographic</td>
<td>Terminate</td>
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<tr>
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<table>
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<th>Product</th>
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<tr>
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</tr>
<tr>
<td>2</td>
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<td>3</td>
<td>Ethical</td>
<td>Terminate</td>
</tr>
<tr>
<td>4</td>
<td>Political</td>
<td>Transfer</td>
</tr>
</tbody>
</table>

LO: 1 and 3
AC: 1.1 and 3.4
Correct answer:
Q11. Which of the following is an example of an operational risk?

a. Unexpected interest costs.
b. Internal technology failure.
c. Increased competitor activities.
d. Fluctuating exchange rates.

LO: 1
AC: 1.5
Correct answer: B

Q12. A fire at the depot of a transport company destroys its vehicle fleet. It is insured and so in time the vehicles can be replaced. However, in the short-term it cannot fulfil customer orders and so loses business. This loss of business is known as which of the following?

a. Consequential loss.
b. Direct loss.
c. Positive loss.
d. Reputational loss.

LO: 1
AC: 1.3
Correct answer: A

Q13. Which of the following are areas of potential technology risk for a procurement organisation?
2. Cargo theft.
3. Ransomware attack.

a. 1 and 2.
b. 2 and 4.
c. 3 and 1.
d. 3 and 4.

LO: 1
AC: 1.6
Correct answer: C
Q14. Which of the following are types of intellectual property protection?
1. Indemnity.
2. Warranty.
3. Copyright.
4. Trademark.

   a. 1 and 2.
   b. 2 and 4.
   c. 3 and 1.
   d. 3 and 4.

LO: 2  
AC: 1.2  
Correct answer: D

Q15. Unforeseen events that arise during a contract will be treated as ‘force majeure’ and all parties will be excluded from liability. Is this correct?

   a. Yes, but only if the event is genuinely beyond the control of one or all of the parties.
   b. No, a contract is legally binding and the parties cannot be excluded from any liability.
   c. Yes, it is not possible for liability to arise for any party if something unexpected happens.
   d. No, it is not possible to exclude responsibility for liability that might arise under a contract.

LO: 2  
AC: 1.3  
Correct answer: B
Q16. The principle of ‘utmost good faith’ lies at the heart of contracts for the provision of insurance. Is this correct?

a. No, caveat emptor is the fundamental principle of all insurance related contracts.
b. Yes, it places the burden of responsibility on the insurance company to check the facts.
c. No, it is always assumed that there are no material facts unless they are expressly stated.
d. Yes, all relevant information must be fully disclosed otherwise the insurance will be void.

LO: 2
AC: 3.3
Correct answer: D

Q17. The conventional methodology for assessing risks involves the evaluation of which of the following? Select TWO that apply.

a. Contingency.
b. Responsibility.
c. Probability.
d. Recovery.
e. Impact.
f. Accountability.

LO: 3
AC: 1.1
Correct answer: C & E
Q18. Which of the following is true about the concept of ‘normal distribution’? Select THREE that apply.

a. It is based on probability.
b. It is depicted as a straight line.
c. The values are evenly distributed.
d. It is symmetric in shape.
e. It shows the variation in extreme points.
f. Most values are around the mean.

LO: 3  
AC: 1.5  
Correct answer: A, D & F

Q19. Major International Manufacturing (MIM) has a strict risk management policy, requiring all risks to be fully evaluated and appropriate action taken. A recent example was a risk that for which MIM was able to take out insurance to provide full protection. Another risk arose because a trusted supplier had short-term performance issues. MIM was comfortable accepting this risk as the supplier was aware of the issue and had promised it was now resolved. MIM’s approaches to dealing with these two risks can be best described as which of the following?

1. Terminate.  
2. Tolerate.  
3. Transfer.  
4. Treat.

a. 1 and 2.  
b. 2 and 3.  
c. 3 and 4.  
d. 4 and 1

LO: 3  
AC: 4.1  
Correct answer: B
Q20. Green Power Group (GPG) manufactures different types of wind turbines and solar panels. A number of changes in GPG’s external environment have been identified as creating potential risks. GPG has a risk framework which sets out its policy for responding to such risks. Relevant information is as follows:-

Risk 1 – Extreme volatility in USD currency rates, against other major currencies, has had an impact on GPG’s costs. The risk has a medium to high rating (probability/impact). In accordance with the GPG risk framework, the risk is too great to be ignored and so a detailed plan with specific actions of mitigation is being implemented.

Risk 2 – Recent changes in demographics indicate potential future changes in consumer spending patterns which might impact on the pricing of GPG’s products. The risk has been assessed as very low (probability/impact). The risk has been noted in the GPG risk register, but no further action is required apart from monitoring the situation annually.

Risk 3 – Due to pressure from lobby groups, GPG has changed its sourcing strategy to ensure that all components are compatible with its sustainability policy. To accommodate its requirements GPG has started using some new suppliers which has created additional transit and storage risks, for which GPG has taken out insurance cover from a third-party specialist provider.

Risk 4 – Systems developments are now facilitating end-to-end supply chain integration. GPG is under pressure to achieve such integration so it does not fall behind its rivals. However, not all GPG suppliers have compatible systems. This has been recognised as a potential risk for GPG and the impact is potentially very significant as the board considers GPG’s survival is dependent on full systems integration. The board has already decided that any suppliers which are unable to comply with GPG’s requirements will have to be replaced.

You are required, for each risk, to determine the relevant external factor and the most appropriate risk response.

You can only use each option once.

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<table>
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### Q20 Continued ...

LO: 1  
AC: 1.6  
Correct answer:

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Risk Response External Factor