

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. The probability of discrete events with only a couple of outcomes would be a description of the focus of which type of probability distribution?

- a. Scalar distribution
- b. Adverse distribution
- c. Binomial distribution
- d. Correlated distribution

LO: 3

AC: 3.1

Correct answer: C

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. ManCo's CPO is particularly concerned about the technological risk this approach may cause. 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. RN Co. Ltd has entered into an agreement with a customer to manage its logistics operations. When drawing up the contract with the customer it has decided to include a force majeure clause. Which of the following is an example of force majeure?

- a. RN Co. Ltd delivery vehicle breaks down for the third time in a week
- b. RN Co. Ltd experience staff shortages of drivers and warehouse staff
- c. RN Co. Ltd unable to deliver due to heavy flooding and hurricanes
- d. RN Co. Ltd unable to deliver due to an administrative error by its accounts department

LO: 2

AC: 2.1

Correct answer: C

Q4. A procurement manager is evaluating their policy for eliminating fraud and corruption in supply chains. Which of the following are types of fraud?

1. Money laundering
2. Misappropriation
3. Budgeting
4. Identity theft

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

LO: 1

AC: 1.3

Correct answer: B

Q5. Risk ownership in an organisation or company must reside with ...

1. a senior level of management within the company structure
2. a risk manager regardless of position or level
3. individuals with the authority to take actions
4. the individual that initially identified the risk

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

LO: 3

AC: 3.3

Correct answer: C

Q6. Is it good practice 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 an outsourced supplier. The procurement manager has requested that the supplier submits a disaster recovery plan. Is a disaster recovery plan appropriate in this scenario?

- a. Yes, a disaster recovery plan, but not remedial actions, should be a 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 approaches 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. Top Construction has been awarded a contract to build a new hospital. Top Construction relies heavily on a network of suppliers and subcontractors to deliver materials and services for this very time sensitive project.

To manage supply chain risks, the Commercial Manager has decided to use an up-to-date, industry specific, model form contract with Top Construction.

Which of the following are ways a model form contract could mitigate risks?

1. By avoiding clauses relating to liability
2. By using vague language to allow flexibility
3. By including up-to-date clauses on regulations
4. By using clear terms for dispute resolution

- 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: C

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. It is 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 marks]

You can only use each option once.

Demographic factor	Political factor
Economic factor	Tolerate
Transfer	Ethical factor
Terminate	Treat

Product	Type of External Factor	Risk Management action
1		
2		
3		
4		

LO: 1 and 3

AC: 1.1 and 3.4

Correct answer:

Product	Type of External Factor	Risk Management action
1	Economic	Treat
2	Demographic	Tolerate
3	Ethical	Terminate
4	Political	Transfer

Q11. Company A has been trying to manage risk more effectively. The management team have decided to use a risk probability/impact matrix. The purpose of the matrix is to plot ...

- a. likelihood of occurrence against length of occurrence
- b. seriousness of occurrence against reason for occurrence
- c. likelihood of occurrence against seriousness of impact
- d. rate of occurrence against length of occurrence

LO: 3

AC: 3.1

Correct answer: C

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. Standard loss

LO: 1

AC: 1.1

Correct answer: A

Q13. Which of the following are potential technology risks for a procurement organisation?

1. Cyber-crime
 2. Cargo theft
 3. Ransomware attack
 4. Under-investment
-
- a. 1 and 2 only
 - b. 2 and 4 only
 - c. 1 and 3 only
 - d. 3 and 4 only

LO: 1

AC: 1.1

Correct answer: C

Q14. An inspection clause is typically used to give the buyer the right to ...

1. access to inspect the supplier's premises
 2. access to inspect the supplier's processes
 3. access to inspect the supplier's commercially sensitive information
 4. access to inspect the supplier's employee health records
-
- a. 1 and 2 only
 - b. 2 and 4 only
 - c. 1 and 3 only
 - d. 3 and 4 only

LO: 2

AC: 2.1

Correct answer: A

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, all parties will be excluded from liability even if only a minor problem arises in the contract
- d. No, it is not possible to exclude responsibility for liability that might arise under a contract

LO: 2

AC: 2.1

Correct answer: A

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: 2.3

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

LO: 3

AC: 3.1

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: 3.1

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. One recent example was a risk for which MIM was able to take out insurance to provide full protection.

A different, second risk arose because a trusted supplier had short-term performance issues. MIMG 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 only
 - b. 2 and 3 only
 - c. 3 and 4 only
 - d. 1 and 4 only

LO: 3

AC: 3.4

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.

Environmental factor	Economic factor
Social factor	Technology factor
Transfer	Treat
Tolerate	Terminate

Risk	Response	External Factor
1		
2		
3		
4		

LO: 1 and 3

AC: 1.1 and 3.4

Correct answer:

Risk	Response	External Factor
1	Treat	Economic
2	Tolerate	Social
3	Transfer	Environmental
4	Terminate	Technology