

CA FINAL

RISK MANAGEMENT

CASE STUDY

IN-HOUSE BY SSEI

Case Study 2 Answer

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CASE STUDY 2

Answer

Identified Risk	Management's Risk Response	Risk Assessment After Implementation of Management Response
Item 1	Acceptance	Inherent Risk
Item 2	Avoidance	No Risk
Item 3	Reduction/Sharing	Residual Risk
Item 4	Reduction	Residual Risk
Item 5	Reduction	Residual Risk

Explanation :

Item 1: Acceptance | Inherent Risk

Given the importance of the three customers, CDM management has decided to accept the risk and take no action at this time. Because management is taking no action, inherent risk exists for the enterprise.

Item 2: Avoidance | No Risk

CDM management has decided to avoid the risk by discontinuing production of the high-end aluminum fishing boat line. Because the line will be discontinued immediately, there is no risk to the enterprise.

Item 3: Reduction/Sharing | Residual Risk

The use of derivative instruments to partially hedge the price volatility of aluminum will reduce this risk but not eliminate this risk. Although the sales force is monitoring competitor pricing, there is no guarantee that higher aluminum costs can be passed onto consumers in the near term. As a result, residual risk still exists.

Item 4: Reduction | Residual Risk

Although performing periodic maintenance checks may reduce the level of scrap output, residual risk still exists. A more effective measure to reduce the scrap output is to upgrade the production machines and/or provide more line-operator training.

Item 5: Reduction | Residual Risk

CDM management will reduce the risk of production output declines by holding line supervisors accountable via their bonus incentives and getting the human resources staff more directly involved in determining production bottlenecks. Requiring that line supervisors also rotate shifts with their production workers also makes the line supervisors more accountable for a team's production output levels. Despite these recommended management actions, residual risk still exists for the enterprise.

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