
*Is your supplier risk management
keeping pace with your strategic
imperatives ?*

What is the role of Internal Audit?



Agenda

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- 2. What is supplier risk management?***
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What is supplier risk management?

“An evolving discipline in operations management that attempts to proactively identify, assess, manage and mitigate risks and disruptions in the supply chain where the organisation is highly dependent on suppliers to achieve business objectives”

- Supply chains typically include multiple partners, with services and sourcing often managed across several centres and organisations in different jurisdictions.
- Sourcing is often distributed through outsourcing arrangements, sometimes involving multiple supplier relationships that may not be visible to the end-client, for example responsible third parties further outsourcing to fourth and fifth parties.
- The current global economic environment requires today’s supply chains to balance efficiency with resilience in the face of continuing volatility and heightened levels of uncertainty.
- Regulators in Australia and overseas have responded by intensifying their scrutiny of outsourcing arrangements, making it more important than ever to have a comprehensive supplier risk management regime in place.

What's the problem?

“RBS Bank joins the IT failures 'Hall of Shame”

“Data centre outage crashes Virgin, Jetstar check-in”

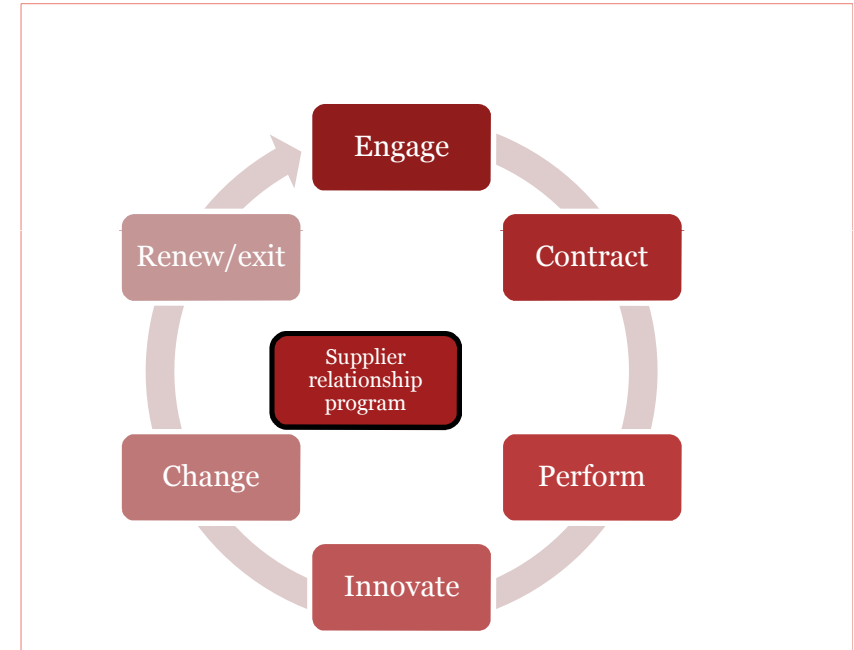
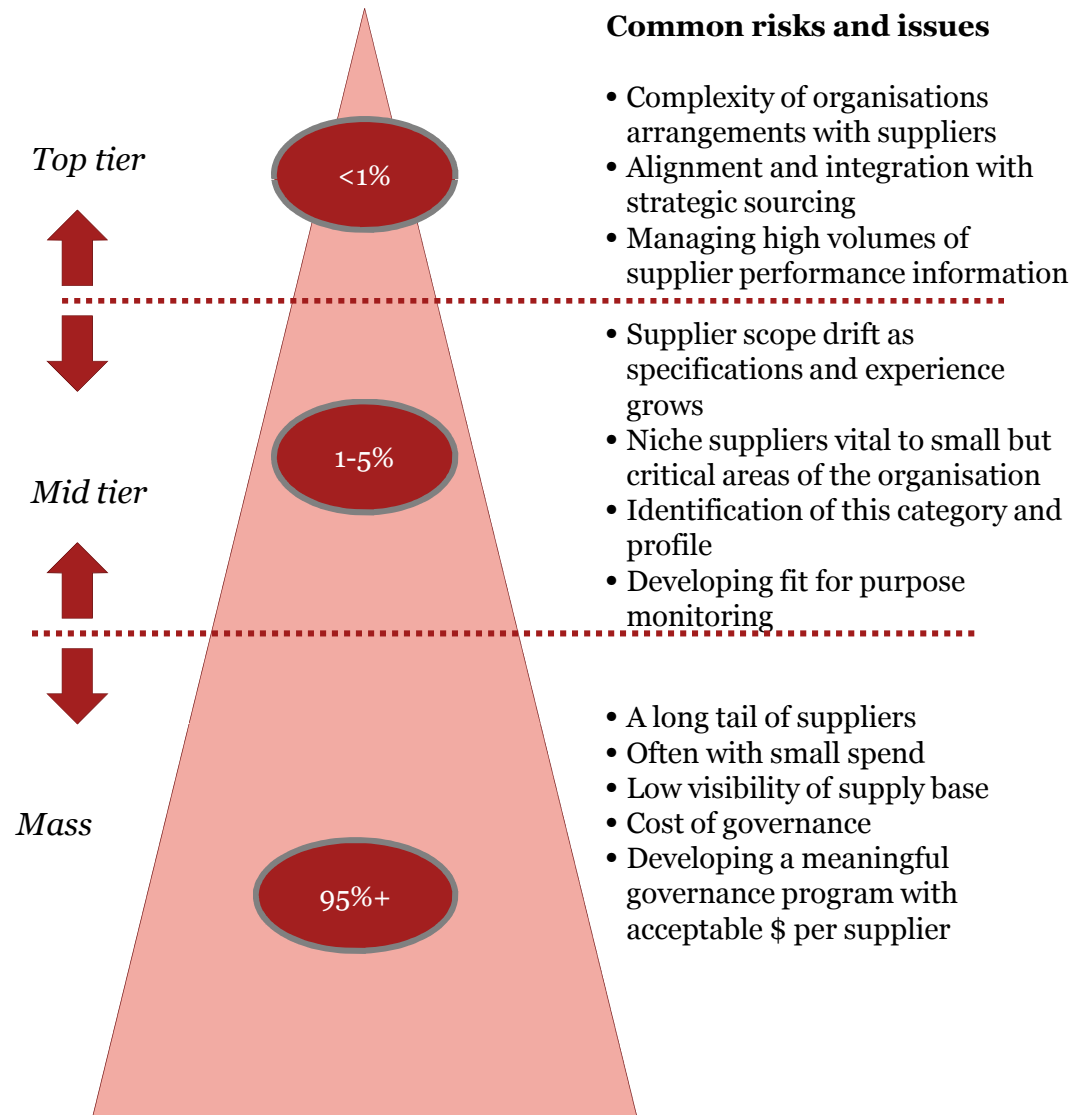
“Software developer busted for outsourcing own job to China”

“Apple sacks supplier over labour issues”

“Samsung audit finds ‘inadequate practices’ at China suppliers”

- Not keeping an accurate and complete inventory of third parties with proliferation of suppliers
- Applying the same level of risk analysis to the majority of third parties, rather than identifying those deemed to carry the greatest risk and then prioritising their focus accordingly
- Operational risk methodologies , policies and platforms not keeping pace or not being consistently followed
- Large organisations having isolated activities that are poorly co-ordinated giving rise to inefficiencies, overlaps and gaps between the business (incl. technology and procurement), the risk function and internal audit
- Not keeping pace with changing regulatory requirements and customer expectations

What's the problem? - continued



What are the risks?

- Reputation/ brand
- Compliance
- Macroeconomic
- Investment
- Legal/regulatory
- IP/counterfeiting
- Change programmes
- Market changes

- Child labour
- Health and Safety
- Resource consumption
- Waste
- Ethical practices

- Customs duty exposure
- Unrecoverable VAT/GST
- Transfer pricing
- Permanent establishment triggering company tax

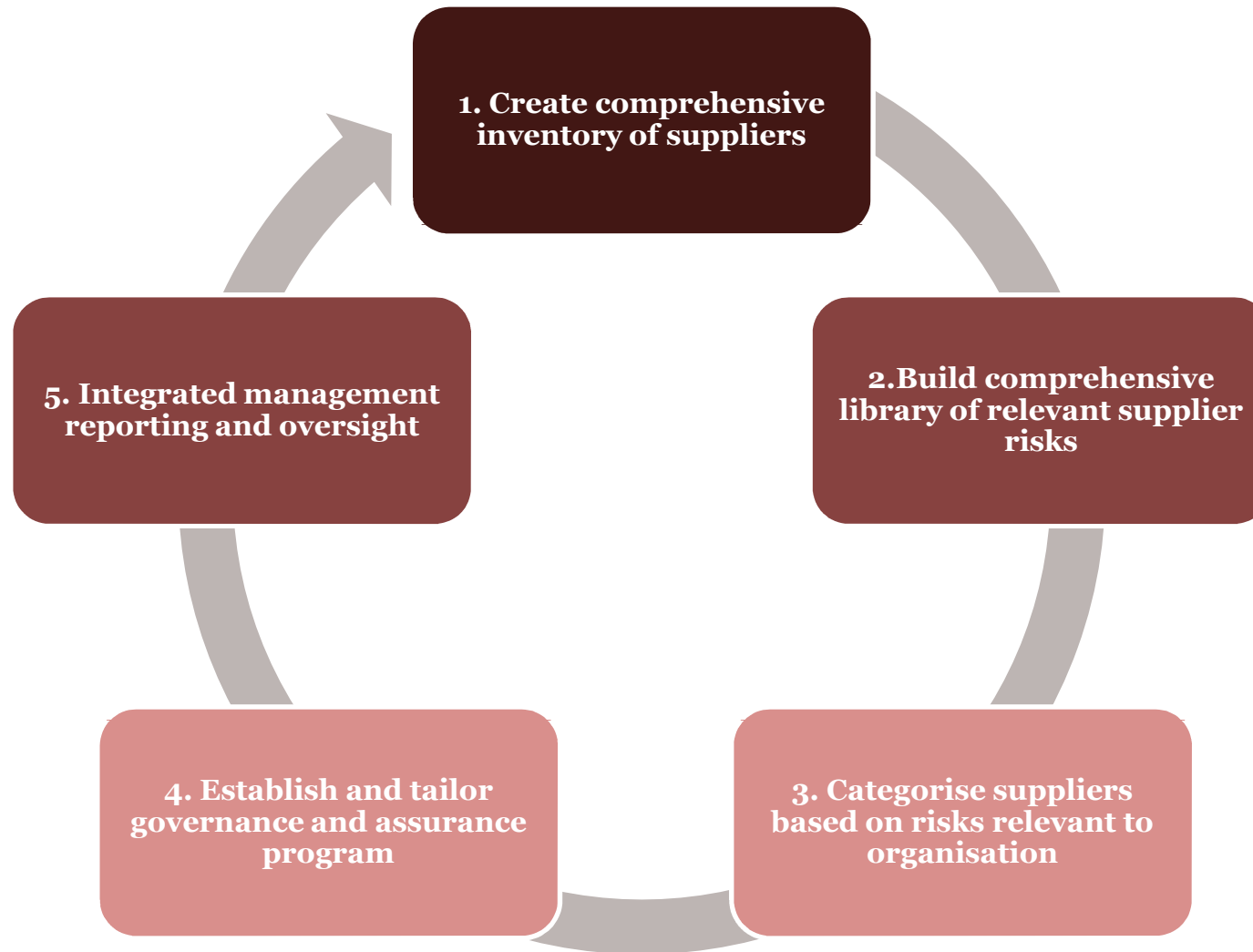


- Exchange rates (volatility)
- Raw material prices
- Penalties
- Commercial
- Competition
- Labour costs

- Demand planning
- Sourcing
- Quality standards
- Trade regulations
- Logistics
- Contracts
- Delivery performance and lead times
- Controls
- Security

- Supplier financial failure
- Shortage of materials
- Embargoes & sanctions
- Natural hazards
- Terrorism

Steps in establishing a tailored framework



Key takeaways

- Can management easily identify all the suppliers used within your organisation?
- Does management have a centralised system for engaging and overseeing sourcing/outsourcing arrangements?
- Does management take a risk-based approach to assessing and managing supply chain risk?
- Are you clear with your suppliers on your expectations / operating principles?
- Does management regularly review and validate outsourcing arrangements to ensure suppliers continue to satisfy organisational standards?
- How are you assured that your organisation complies with the relevant jurisdictional / contractual compliance requirements triggered by your supplier / offshoring / outsourcing relationships?
- Are you comfortable that your organisation would be able to respond rapidly to a supply chain disruption?
- Have you quantified the potential impacts of supply disruptions?
- Does management have an assurance process in place to ensure outsourcing policies are being followed?

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