

SUPPLY CHAIN RISK MANAGEMENT

Western Australia Internal Audit Conference – 16 & 17 September 2021



Presentation outline

- Identification of your organisation's supply chain and understanding of its risk profile
 - Impact of regulation and compliance requirements such as Modern Slavery and Sanctions
 - Sourcing risks related to the operational effectiveness of the supply chain
 - Addressing third party risk in the supply chain
 - Mapping the supply chain processes – Identifying control gaps and risk exposures
 - Insights on methodologies to deliver value in completing an audit / risk assessment of the supply chain
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Strategic importance of supply chain management

Supply chain management

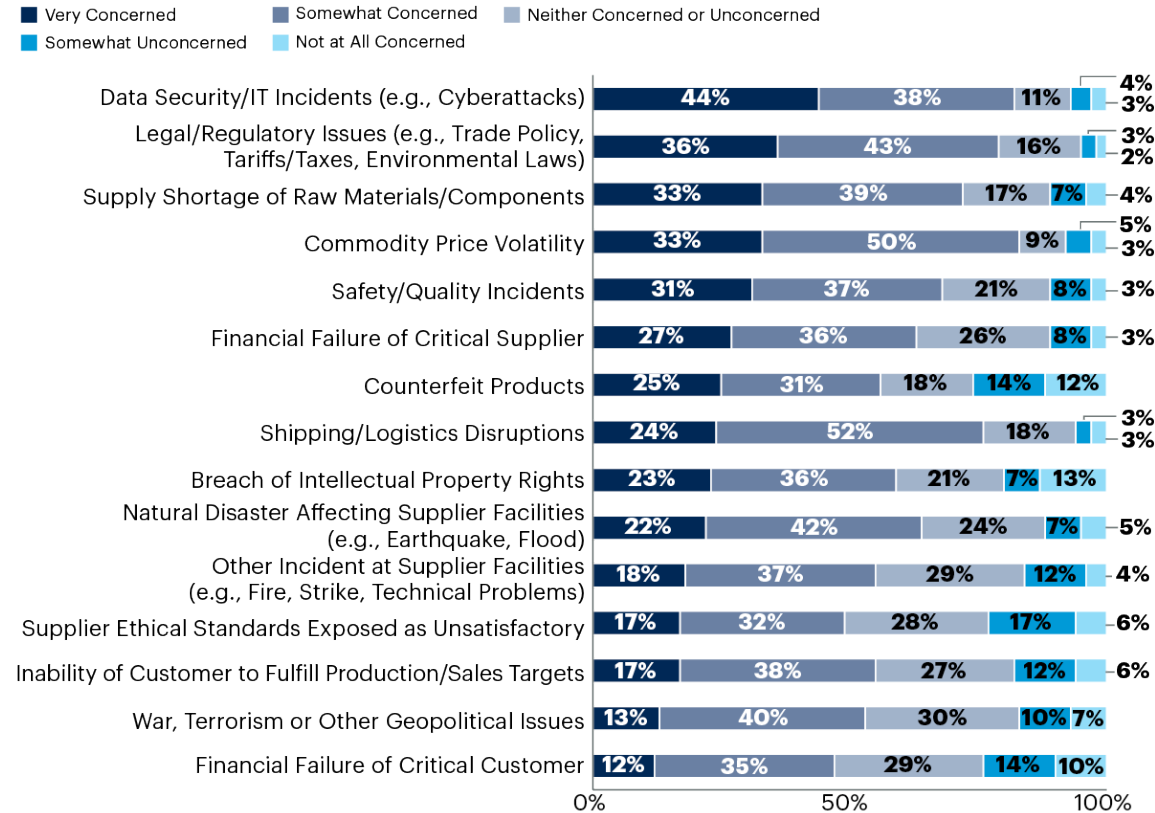


- cost savings from acquiring goods and services
- minimising expenses on inventory and capital
- avoiding waste and duplication
- higher levels of demand can be met
- profit from lower costs and higher revenue
- quality improvements from sourcing better materials
- customer satisfaction from balancing supply and demand
- failures/transgressions of third parties will reflect on the business

Sourcing risks related to the operational effectiveness of the supply chain

Top Risks Within Supply and Demand Chains

Percentage of Respondents



n = 270

Source: SCM World's 2018 Future of Supply Chain Survey

717238

Current examples of supply chain disruption

Blade mishap for BMW's
Australian cobalt supplier www.afr.com

Trade in fake goods is now 3.3% of
world trade and rising. <http://www.oecd.org/governance/trade-in-fake-goods-is-now-33-of-world-trade-and-rising.htm>

Semiconductor shortage will hit auto
industry well into 2021 <https://www.automotivelogistics.media/>

Samsung, a smartphone and chip-making
giant, said a severe global shortage in
semiconductors would hurt its business
into the next quarter.

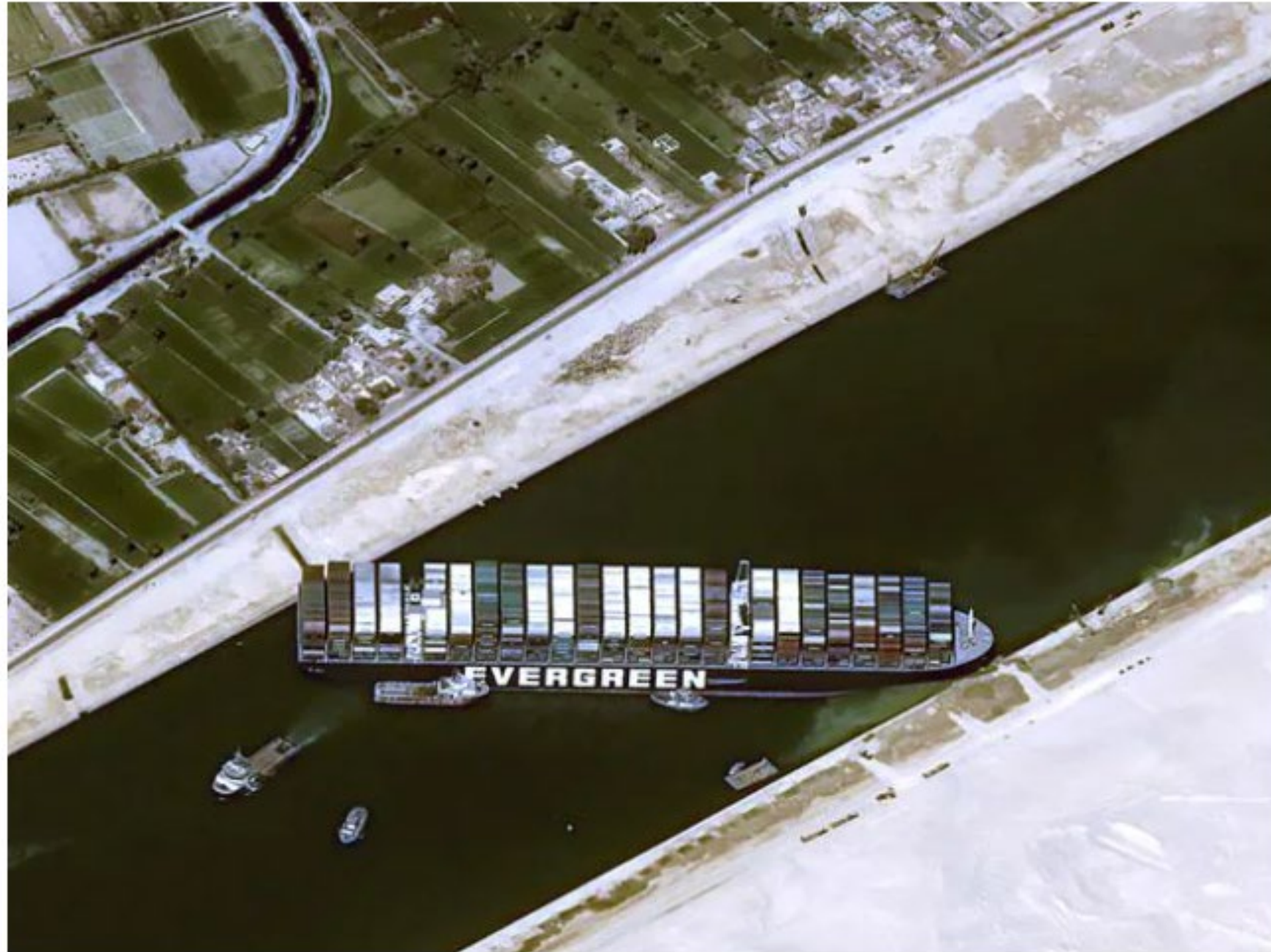
Container chaos as COVID, industrial
action, weather cause 'perfect storm' for
import and export delays. www.abc.net.au

Xinjiang cotton sparks concern over
'forced labour' claims <https://www.bbc.com/news/business-50312010>

Retailers to face continued pandemic-
induced supply chain pain well into 2021
<https://www.spglobal.com/marketintelligence/en/news-insights>

Despite numerous supply-chain upheavals
inflicted by disasters in the last decade —
including the eruption of a volcano in
Iceland, the Japanese earthquake and
tsunami, Thailand floods, and Hurricanes
Maria and Harvey — most companies still
found themselves unprepared for the Covid-
19 pandemic. <https://hbr.org/2020/03/coronavirus-is-a-wake-up-call-for-supply-chain-management>

Everywhere You Look, the Global Supply
Chain Is a Mess. Winter storms and
crammed ports in the U.S. add to
disruptions of production and supplies
during the pandemic — www.wsj.com



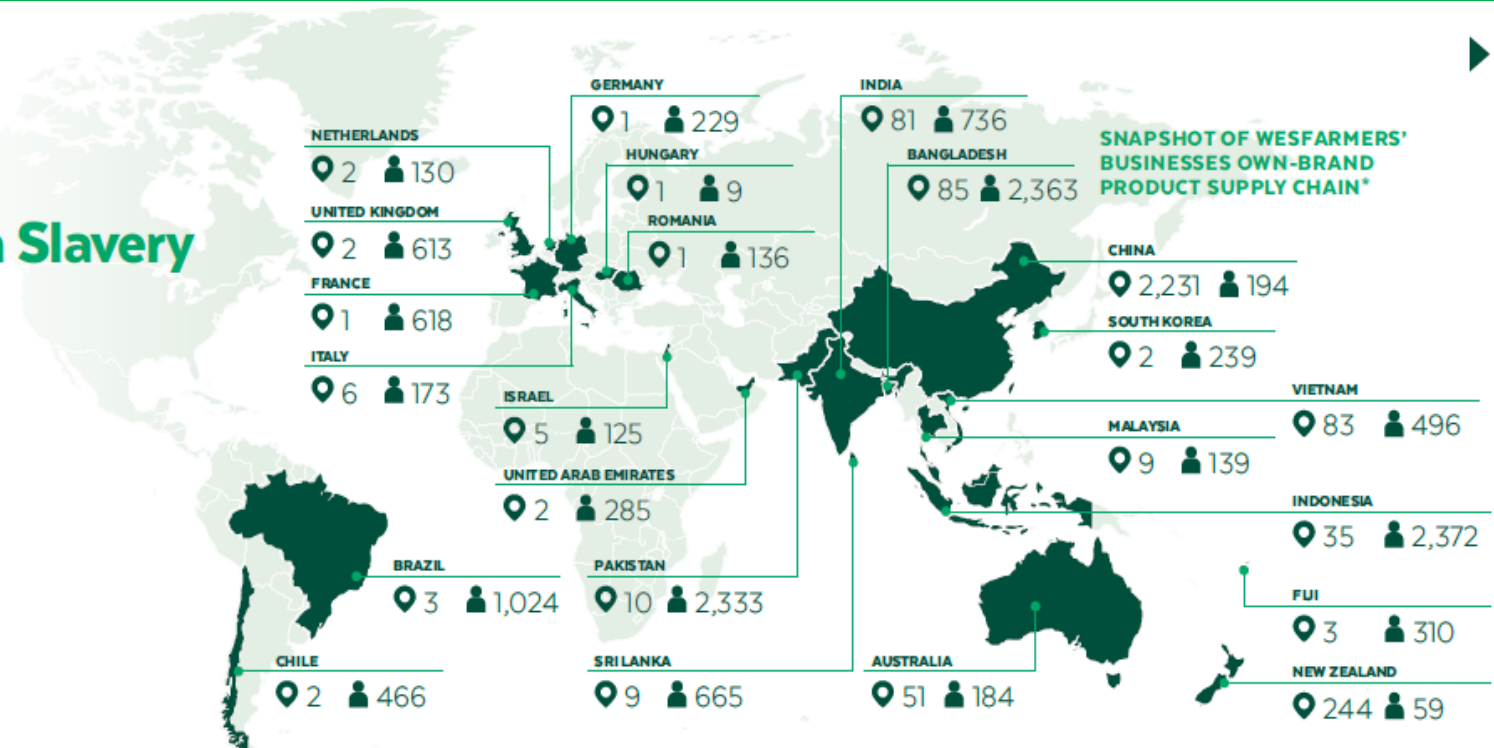
The owners of a giant container vessel blocking the Suez Canal said they faced "extreme difficulty" refloating it. Picture: AFP Source:AFP

Modern Slavery and Sanctions

- What is modern slavery?
- Actual examples of modern slavery - the seafood industry
- Why should we be concerned about modern slavery and sanctions?
- Know where your products/services originate – countries with a weak regulatory environment, human right breaches or subject to sanctions.

Wesfarmers Modern Slavery Overview 2021

2021 HIGHLIGHTS



Addressing third party risk in the supply chain

Third parties expose businesses to strategic, operational, financial, and compliance risks.

- Being held accountable for the actions of third parties
 - Supply chains are multi-dimensional ecosystems, requiring exponentially higher levels of collaboration and connectivity
 - Criticality of third-party suppliers on the business (who are they)
 - Monitoring and reporting routines
 - Legal and compliance to understand regulatory requirements and stay abreast of new guidance (Product safety)
 - Contracting processes (contract review, negotiating terms and approvals)
 - Termination activities such as when and how to exit a third-party relationship
 - Contingency plans to prevent disruption of processes and services
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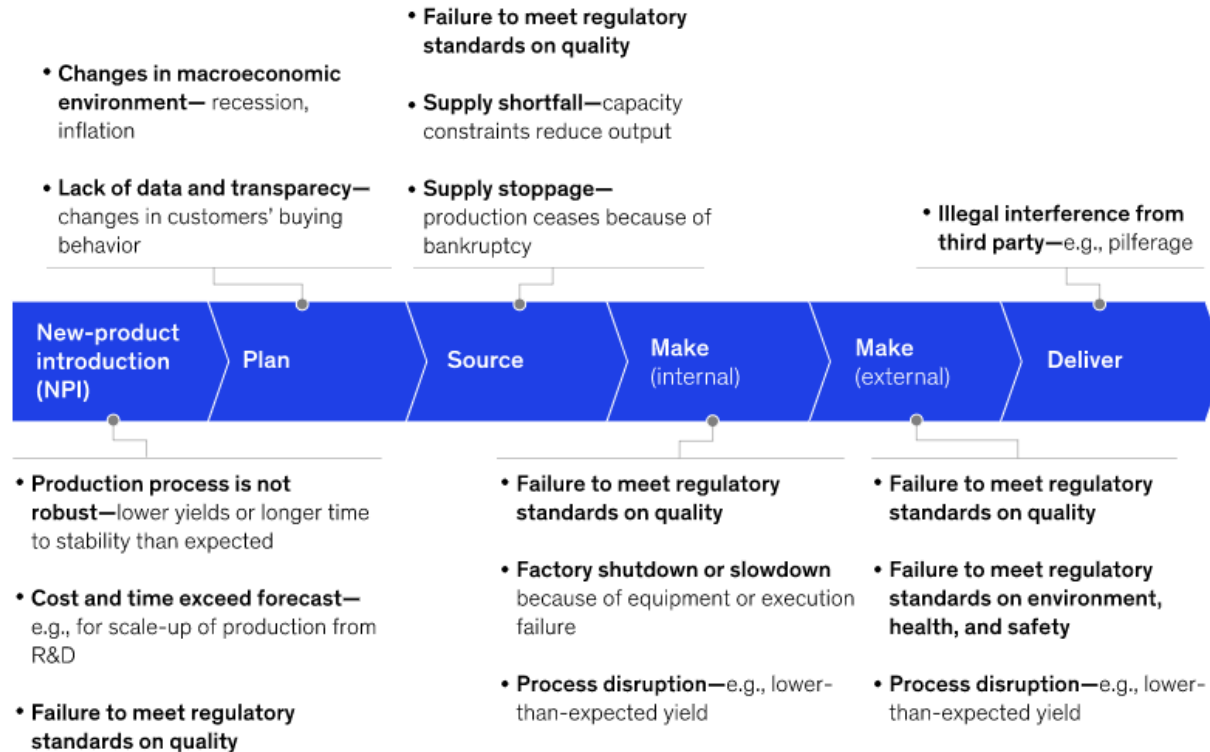
Addressing third party risk in the supply chain

Table 1. Third-Party-Risk Universe

Third-Party Risk Category (Level 1)	Risk Type (Level 2)	Risk Subtype (Level 3)	Risk Definition	Possible Impact of TP Risk on the Organization	Owner
Third-Party Risk - Legal and compliance Risk	Information/Data Management Risk	Protection of Records	The risk that records are not protected from loss, destruction, falsification, unauthorized access and unauthorized release, in accordance with legislation, regulatory, contractual and business requirements.		
Third-Party Risk - Legal and compliance Risk	Force Majeure Risk		The risk that a force majeure clause - providing a temporary reprieve to the third party from performing its obligations under a contract upon occurrence of a force majeure event - is not included in the their contracts with customers, suppliers and vendors, which may expose the third party to legal or		
[Example] Third-Party Risk - Legal and Compliance Risk	Nepotism	Favorable Treatment	The risk of third party favoring specific vendors or suppliers due to personal relationships.		
Third-Party Risk - Cyber and Information Technology Risk	Information Monitoring Risk	Social Media	The risk that third party's employees do not exercise their best judgment and personal responsibility when discussing the third party on social media or other open source platforms. Or the risk that the third party does not monitor social media or other open source platforms for negative sentiments uploaded by any current or former employee, resulting in the loss of reputation for the third party.		
[Example] Third-Party Risk - Cyber and Information Technology Risk	Data Security Training Risk		The risk that third party's employees either do not understand or do not apply security training concepts to their work.		
Third-Party Risk - Financial Risk	Financial Planning/Information Risks	Budget & Planning Risk	The risk that nonexistent, unrealistic, irrelevant or unreliable budget and planning information for the third party may cause inappropriate financial decisions.		
Third-Party Risk - Financial Risk	Valuation Risks		Financial factors posing direct risks to the organization's value. For example, incorrect valuation of third party assets, etc.		
Third-Party Risk - Strategic Risk	Business Model Risks	Geographic Dispersion Risk	The risk that the third party is overly dependent on a specific geographic markets because of the concentration of certain aspects of the business.		
[Example] Third-Party Risk - Strategic Risk	Competition Risks	Hostile Takeover Risk	The risk that the third party becomes the acquisition target of a competing organization.		
Third-Party Risk - Operational Risks	Suppliers or Vendor Exposure Risk	Supplier or Vendor Credit Risk	The risk that a third party's supplier or vendor has poor credit and represents a significant operational risk to the third party's ability to meet its obligations.		
[Example] Third-Party Risk - Operational Risks	Suppliers or Vendor Exposure Risk	Supplier or Vendor Information Sharing Risk	The risk that third party employees disclose confidential information to other-parties (vendors or suppliers)without explicit or implicit individual consent.		

Mapping the supply chain processes – Identifying control gaps and risk exposures

Assess value-chain nodes to identify key risks.



Audit / risk assessment of the supply chain

- Work closely with functions to ensure effective coordination and cross-silo partnership
 - Understand Supply Chain objectives and strategic plans
 - Understand and document the supply chain universe
 - Preparing an assurance map and understanding the 3LOD
 - Determining the assurance priority of key areas
 - Key risk areas involve subject matter experts – Integrated approach
 - Do we understand what is the best way to manage risk?
 - Use of data analytics depending on the scope
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Assurance map example

			1st Line of Defence: Business Operations			2nd Line of Defence: Oversight			3rd Line of Defence: Independent Assurance		
Process	Risk(s)	Aggregate Level of Assurance	Policy and Procedures	Management oversight & reporting	Self Assessment	Executive, Audit Committee or Treasury reporting	Independent oversight = e.g. Compliance & Legal overview, Health and Safety overview, Risk Review, Other Internal Review, Centralised monitoring	Fraud Investigations	Internal Audit	External Audit	Other Assurance
New product development and research	1. Governance and Compliance Risk 2. Fraud/ Corruption	Medium assurance	High assurance	High assurance	None	High assurance	None	Medium assurance	High assurance	High assurance	None
Sustainability and ethical sourcing	1. Ethical Sourcing 2. Climate Change 3. Environment	Low assurance	Medium assurance	Medium assurance	None	None	Medium assurance	None	None	None	None
Supplier onboarding and management	1. Governance and Compliance Risk 2. Fraud/ Corruption	Low assurance	High assurance	Medium assurance	None	Medium assurance	None	None	Medium assurance	Medium assurance	None
Product safety and quality	1. Product or Service Failure 2. Competition - Market or economic changes (Customer offer fails to resonate)	None	Medium assurance	None	None	None	None	None	None	None	None
International logistics	1. Governance and Compliance Risk 2. Supply Chain Interruption	Low assurance	Medium assurance	Medium assurance	None	None	None	None	High assurance	None	None

		Other risk and emerging issues considerations			FY22 IA Planning Considerations and development of IA Plan						
Process	Aggregate Level of Risk	Internal Audit Projects Outcome	Critical IT System Changes	Other risks (e.g. change in key personnel, COVID impact)	Assurance Priority	Last Recent Audit	Prior Audit Cycle (per 5 year view)	Consideration for Management actions	FY22 IA Plan (Yes/ No)	Bespoke DATA?	DA Platform?
New product development and research	Low Risk	Low Risk	None	None	High	FY20	2				
Sustainability and ethical sourcing	None	None	None	None	Low	N/A	RP				
Supplier onboarding and management	Low Risk	Low Risk	None	None	High	FY20	1				
Product safety and quality	None	None	None	None	High	FY19	3				
International logistics	High Risk	High Risk	None	None	Medium	FY21	3				

Assurance map example

FY22 STRATEGIC PRIORITIES

- Increasing competitive intensity or challenging market outlook
 - Wide and growing competitor set
- New technology and digital capabilities
 - Capturing and leveraging data
- Supply chain and sourcing
 - Supply chain and sourcing transformation
- Legacy systems and processes
- Changing customer expectations
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- Disruption

FY22 IA PLAN PRIORITY – ASSURANCE COVERAGE



ASSURANCE COVERAGE – KEY

IA Priority

- High
- Medium
- Low
- Not rated

Group Risk Appetite

- Averse
- Minimal
- Cautious
- Receptive
- Embrace

Assurance Coverage – 3LOD

- ① 1st LOD – Management
- ② 2nd LOD – Independent Oversight
- ③ 3rd LOD – Independent Assurance (exc. IA)

Level of Assurance

- High
- Medium
- Low
- None
- Not Rated

IA Coverage

- (FYxx, FY22) – FYxx last completed
- (FYxx, FY22) – FY22 plan

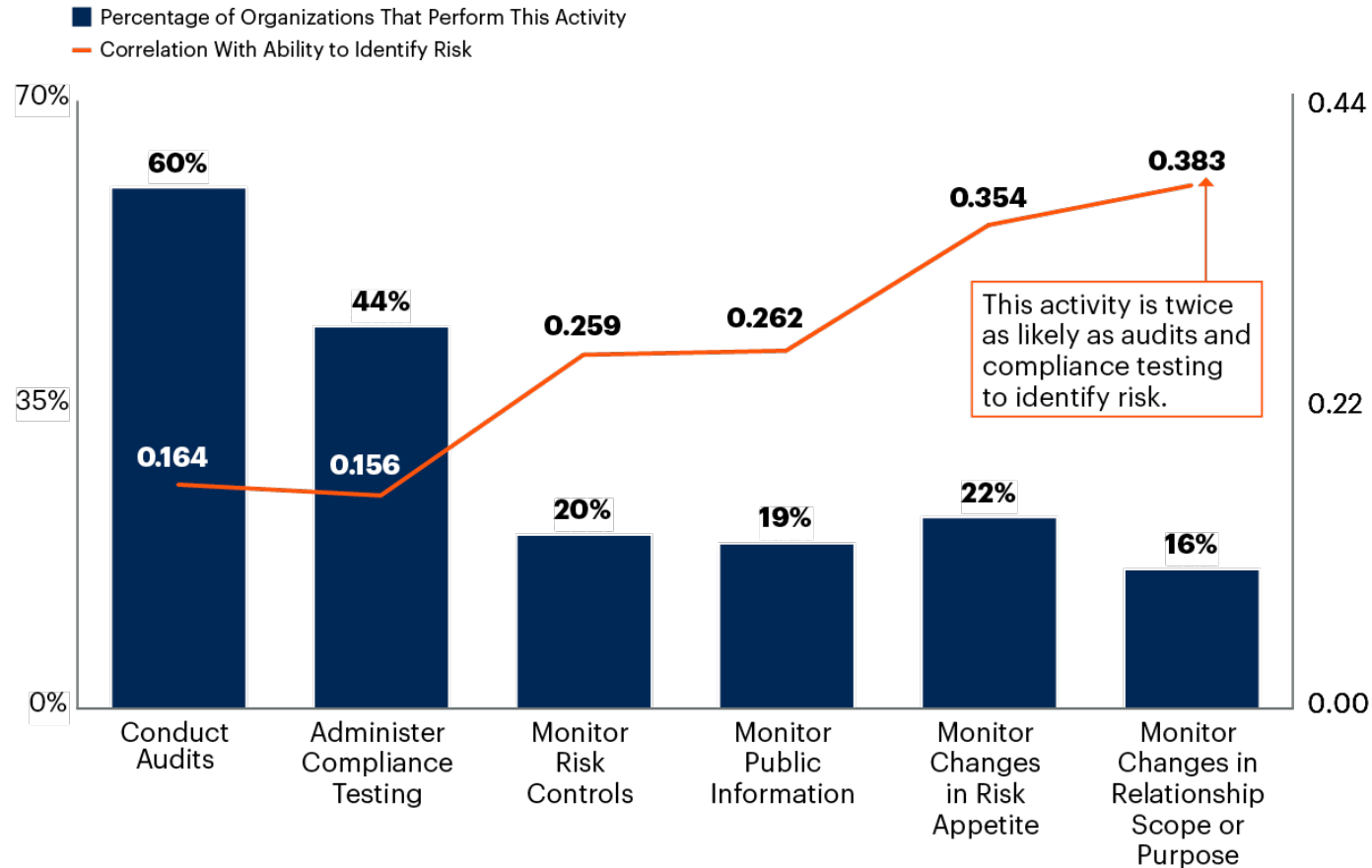
Note (refer to slide 24)

- ^{1,2} – Rationale for FY2022 priority inclusion
- ^{A, B} – Not in FY2022 IA Plan, FY2023 consideration



Relationship Between Monitoring Activities and Risk Outcomes

Relationship Between Monitoring Activities and Risk Outcomes



n = 953

Source: 2019 Gartner Cross-Functional Third-Party Risk Management Model

714401

Value of a successful supply chain

- Ultimately profitability
 - Cashflow and capital management
 - Organisational resilience and responsiveness
 - Reputation of the organisation for example ethical sourcing
 - Client satisfaction
 - Team member culture and support
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Questions
