



Chartered Institute of
Internal Auditors

Parliamentary Briefing: Supply Chain Risks - the critical role of internal audit

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STRENGTHENING SUPPLY CHAIN RESILIENCE: A STRATEGIC NATIONAL IMPERATIVE

This briefing aims to explain to parliamentarians the critical role of internal audit in supporting organisations to identify, manage and mitigate supply chain risks, as well as strengthen resilience. Enhancing the security of the supply chain is more than just a strategic priority for organisations, it's one of national interest. HM Government's latest National Risk Register¹ highlights the complex web of threats currently challenging UK supply chains and one of the main aims of the register is building the UK's collective resilience to these risks. This will require a concerted and combined effort from all sectors and the Government to ensure that the UK's supply chains are robust, adaptable, and capable of withstanding global shocks to help the nation be more safe, secure, and prosperous.

Over recent years the UK has faced a series of supply chain disruptions, that have highlighted the fragile state of global supply chains. Recent events include empty supermarket shelves during the Covid-19 pandemic; the HGV driver shortage that led to long queues at petrol stations in 2021; as well as last year a lack of tomatoes and other fresh produce due to crop failures. Recent geopolitical upheavals—ranging from Brexit to the war in Ukraine and the Red Sea shipping attacks—coupled with climate-induced extreme weather events, have exposed the limitations and fragility of supply chains, and underlined the need for greater resilience. These events pose some concerning questions: How prepared is the UK for sudden and unexpected supply chain disruptions? What does the UK do if tensions between the West and China take a turn for the worst? How will the UK react if the conflict in the Red Sea escalates?

Such scenarios could potentially have immediate and far-reaching effects on access to essential goods impacting every constituency, business, and person in the country.

The repercussions of these disruptions not only can lead to reputational damage, legal challenges, and significant operational interruptions for organisations, but can further impact the financial performance, competitiveness, and sustainability of the broader economy. Recent supply chain disruptions have also exacerbated the cost-of-living and cost-of-doing-business crisis by leading to price rises, fuelling inflation, and slowing the economic recovery.

In a riskier and more volatile world, the internal audit function's ability to provide assurance and identify potential risks posed by supply chain disruption is increasingly critical. Internal audit is a tool for organisations to utilise in building greater resilience and in helping them to develop more resilient, secure, and diverse supply chains, thereby lowering exposure to risk and enhancing their ability to respond to unexpected events.

In response to growing supply chain concerns, the Chartered IIA launched a two-part research project. Through roundtables and interviews with key stakeholders, including chief audit executives, audit committee chairs, and supply chain experts, the reports offer valuable insights and strategies for mitigating risks in today's complex interconnected supply chain.

Click here to download our Supply Chain [ESG Risks](#) and [Security and Resilience](#) reports.

WHAT ARE THE KEY RISKS AFFECTING SUPPLY CHAINS?

In an increasingly uncertain world fuelled by rising geopolitical tensions, understanding the myriad risks threatening supply chain stability is becoming increasingly important. Effective risk identification is crucial for maintaining a resilient supply chain. In our latest reports, the Chartered IIA has identified numerous risks that we believe to be important for parliamentarians to be aware of concerning supply chain resilience and security:

¹ National Risk Register 2023 edition HM Government

Geopolitical risks

Parliamentarians will no doubt know that recent geopolitical events, particularly the ongoing war in Ukraine and the concerning attacks on container ships in the Red Sea, have significantly impacted global supply chains. Since November 2023, attacks on commercial vessels in the Red Sea have forced major shipping companies to alter routes, causing significant hikes in transportation costs and extended transit times. This disruption, affecting 12% of global trade², including vital energy and containerised goods, exposes the delicate and interconnected nature of our supply chains.

This ongoing crisis serves as a stark reminder of the urgency for resilient and adaptable supply chain models capable of withstanding global challenges. In response, CEOs are reassessing their strategies. A recent PwC survey³ revealed that 46% are actively considering adjustments to their supply chain operations to mitigate the impact of geopolitical disruptions.

Cybersecurity risks

Cyberattacks are a growing threat to organisations of all sizes, and ransomware supply chain attacks have become more frequent and more severe. The growing frequency of cyberattacks on supply chains is also being exacerbated by rising geopolitical tensions – with a rise in attacks from hostile states like Russia and China. Recent high-profile incidents, such as the MOVEit cyberattacks in June 2023⁴, affected over 620 organisations including the BBC, Boots, and British Airways. Ransomware attacks and the increasing digitisation of supply chains underline the need for robust cybersecurity measures and the importance of integrating these considerations into overall supply chain risk management strategies.

Demographic shifts

Parliamentarians will be aware of the ongoing HGV driver and mechanic shortages in the UK and the ensuing delays in getting stock on the shelves for consumers. These shortages, alongside an ageing workforce, are critical resource concerns that are impacting the ability of organisations to maintain smooth supply chain operations amid growing consumer demands. These demographic shifts are impacting the labour market dynamics and in turn, straining supply chains.

ESG risks

ESG risks continue to have a major impact on supply chains. Extreme weather affecting UK supermarket supplies, along with scandals like Boohoo's ethical breaches⁵, show the tangible effects of ESG risks on supply chains. These incidents spotlight the critical need for organisations to seriously address their supply chain ESG risks to avoid reputational damage. Regulatory changes and growing public awareness are driving increased focus on integrating ESG considerations into supply chain management.

Economic Factors

Economic factors such as inflation and energy price volatility present significant challenges to supply chain risk management. Rising costs of materials, energy, and transportation force organisations to balance cost-efficiency with resilience. Reevaluating supply chain strategies is crucial in managing these pressures effectively and ensuring stability for both businesses and consumers.

² Red Sea crisis: What it takes to reroute the world's biggest cargo ships on a 4,000-mile detour, BBC

³ PWC 26th Annual Global CEO Survey, PWC

⁴ MOVEit hack: BBC, BA and Boots among cyber attack victims, BBC:

⁵ Fast fashion: Boohoo breaks promises on ethical overhaul, BBC

WHAT IS THE ROLE OF INTERNAL AUDIT IN SUPPORTING ORGANISATIONS TO IDENTIFY, MANAGE AND MITIGATE SUPPLY CHAIN RISKS?

Organisations continuously assess, categorise, prioritise, and implement strategies to address supply chain risks. Internal audit plays a role in this process by providing ongoing independent assurance, oversight, and insights into such risks. Internal audit also goes beyond standard risk assessments by providing independent assurance, identifying emerging threats and evaluating the effectiveness of existing mitigation strategies, thereby ensuring the organisation is responsive to current challenges. With a helicopter view of the entire business operation, internal auditors hold a unique position in assessing and assuring the resilience of supply chain strategies. They have an independent and objective point of view that can help an organisation prioritise and implement effective solutions before risks escalate into major disruptions.

Here are some of the ways organisations are using internal audit to tackle supply chain risks:

Business Continuity Planning: Organisations are seeking backup suppliers, alternative shipping routes and deploying crisis management protocols to ensure business continuity. Internal audit can evaluate the effectiveness of business continuity plans, ensuring they are comprehensive and capable of guiding organisations through disruptions.

Supply Chain Diversification: Organisations are diversifying their supplier base by building strategic international and domestic partnerships to reduce the risk of over-reliance on a single source. Internal audit can help by evaluating the organisation's ability to identify and prioritise critical suppliers, establish clear selection criteria for new suppliers, and effectively manage supplier relationships.

Cybersecurity Measures: Despite improved efficiency, digitisation of supply chains exposes organisations to cyberattacks. Internal auditors can assess the security of digital supply chain solutions, from blockchain technology to IoT devices, ensuring that data integrity and confidentiality are maintained.

Regulatory Compliance and ESG Considerations: Organisations need to comply with regulatory requirements designed to protect the environment and ensure that supply chains are sustainable and ethical. Internal audit can help organisations adhere to these regulations by assuring the due diligence processes carried out by organisations on potential/existing suppliers.

Contractual Safeguards: Strong contractual safeguards such as escrow agreements provide organisations with protection during supply chain disruptions. Internal audit can examine the strength and adequacy of contractual safeguards.

Criticality Assessments: Criticality assessments help organisations identify crucial materials, assess their availability and understand the potential impact that the absence of these materials could have on the organisation. Internal audit can evaluate criticality assessments to determine if they are fit for purpose and recommend actions to strengthen these assessments.

Supply Chain Mapping: Organisations are increasingly leveraging digital innovations for real-time monitoring of the supply chain. Utilising mapping software and predictive analytics helps organisations gain greater visibility of their supply chain structures and pinpoint areas of potential disruption. Internal audit can verify the accuracy and completeness of supply chain maps and help the organisation develop mitigation plans.

By providing strategic oversight and actionable insights, internal auditors empower organisations to adapt and thrive amidst the complexities of today's uncertain world.

Contact us: We hope that you find this briefing useful so you can better understand some of the key supply chain risks businesses are facing. For any enquiries regarding this briefing or if you would like to set up a meeting to find out more about how we can support your work as a parliamentarian, please contact **Gavin Hayes, Head of Policy and Public Affairs** at gavin.hayes@iia.org.uk.