INTERNAL AUDIT NEWSLETTER

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Conducting a Self-Assessment of Business Risks

Let's take a brief introduction of the topic:

In today's dynamic business environment, understanding and managing risks is crucial for the sustainability and growth of any organization.

Self-assessment of business risks not only helps in identifying potential threats but also enhances decision-making processes, ensuring that your business remains resilient.

This newsletter provides a practical guide in conducting a thorough comprehensive self-assessment of business risks.

LET'S TAKE AN EXAMPLE

Alpha Ltd., engaged in the manufacturing of heavy equipment, observed that its production cycle was getting delayed leading to late deliveries and losing on client commitments. Through a self-assessment, the company identified root cause of this issue along with several other key risks:
Operational delays due to supply chain disruptions, compliance gaps and cybersecurity vulnerabilities in its IT systems.

Quote of the day:
"Your most unhappy customers are your greatest source of learning"

WHY CONDUCT SELF-ASSESSMENT?

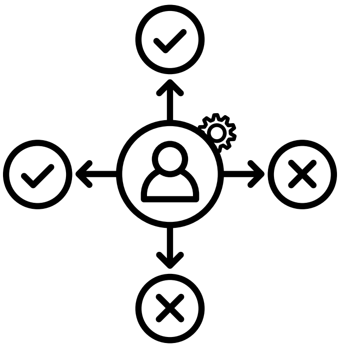
Why?

Conducting a self-assessment not only helps identify the risks but also equips businesses with the tools to address them effectively. This process enhances preparedness, fosters innovation, and strengthens the foundation for sustainable growth.

Key benefits of conducting a self-assessment include:

PROACTIVE RISK MANAGEMENT

Risks often escalate when they go unnoticed or unaddressed. Identifying the risks early prevents surprises and mitigates potential losses.



OPTIMIZING RESOURCES

Risk assessments help organizations focus on high-impact areas where risks could significantly disrupt operations, profitability, or reputation. By prioritizing risks based on their likelihood and impact, businesses can allocate time, finances, and talent more effectively.

BETTER DECISION-MAKING

Providing valuable insights into risk areas to support strategic goals. By identifying risks early, organizations can make more informed decision

ENHANCING RESILIENCE

This activity helps businesses identify gaps in processes and systems that could leave them exposed to risks. By proactively addressing these vulnerabilities, organizations can establish stronger, more adaptable processes.

STEPS TO CONDUCT A SELF-ASSESSMENT OF BUSINESS RISKS

1. Define the Objectives & Scope

Before beginning the risk assessment, it is essential to define clear objectives and scope. Objectives provide direction, ensuring the process focuses on critical areas. The scope determines the business areas and types of risks to be analyzed, keeping the assessment relevant and targeted.

2. Identify Potential Risks

Identifying potential risks is a critical step in the process. Engage employees at all levels and brainstorm potential risks across various functions in the organization. Use methods like SWOT analysis, interviews, past data / performance. Consider involving experts to ensure a comprehensive analysis and that no potential risks are overlooked.

3. Prioritize Risk by assessing the Impact & Likelihood

Assessing the identified risks helps the company understand their potential impact and likelihood of occurrenceTools like the risk prioritization matrix can be used to calculate risk scores by multiplying impact and likelihood values. Prioritize risks with the highest scores, as they pose the most significant threat to the organization.

For instance, if a risk has a moderate impact (3 out of 5) and a high likelihood (4 out of 5), its risk score will be 12 (3x4), indicating a priority for immediate attention.

4. Develop Mitigation Strategies

For high-priority risks, develop and implement strategies to reduce their likelihood or impact. These strategies may include:

- **Avoidance:** Changing processes or activities to eliminate the risk where possible.
- **Mitigation**: Strengthening existing controls or introducing new measures to reduce the risk.
- **Acceptance:** Acknowledging the risk and preparing for its potential consequences.

5. Monitor and Review

Risk management is an ongoing process that involves regular reviews to identify emerging risks and evaluate the effectiveness of existing controls. Organizations should establish a systematic approach to monitoring changes in the business environment and updating risk mitigation strategies accordingly. Engaging professional risk advisors can provide valuable insights, ensure continuous oversight, and support management in maintaining robust risk controls.

Self-assessment of business risks is not just a proactive step but a strategic necessity for organizations striving for long-term success. By following the above steps, it can enhance the understanding of potential threats and implement effective strategies to mitigate them.

Internal auditors play a pivotal role in this journey by providing expertise to design and conduct comprehensive risk assessments. They help organizations uncover critical risk areas, evaluate the effectiveness of existing controls, and suggest practical solutions to address gaps.

KEY RISK AREAS OF BUSINESS

OPERATIONAL RISKS	Risks related to processes, supply chain, equipment failures, or human errors
FINANCIAL RISKS	Financial risks are related to the organization's financial health, arising from poor management of resources
COMPLIANCE RISKS	These risks involve failure to adhere to laws, regulations, or internal policies.
STRATEGIC RISKS	Strategic risks arise from decisions that affect the organization's direction or objectives.
REPUTATIONAL RISKS	These risks involve damage to the organization's reputation due to internal or external events.
IT & CYBERSECURITY RISKS	These risks are tied to the organization's technological infrastructure and data security.

AUDIT OBSERVATION

Lack of monitoring on pricing agreements

An organization incurred financial losses due to lack of monitoring the market price circulars issued by a key supplier. The procurement pricing for raw materials (Steel) was determined on agreed benchmarks, such as spot prices and average rates from supplier's circulars.

However, upon reviewing the prices charged against the circulars, significant variances were identified that deviated from the agreed pricing structure.

AUDIT

Risk Involved

The company is overpaying for raw materials, directly impacting the company's profitability and impacting the production cost.

The lack of oversight in price monitoring suggests weaknesses in the procurement and sourcing functions.

Recommendation

To address this risk, the company should implement a structured process to periodically review market price circulars issued by suppliers.

This will help in promptly detecting any deviations from the agreed pricing formula and addressing them in a timely manner

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RRCO CORNER

From Spreadsheets to Smiles

" FOCUSED ON VALUE ADDITION "

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