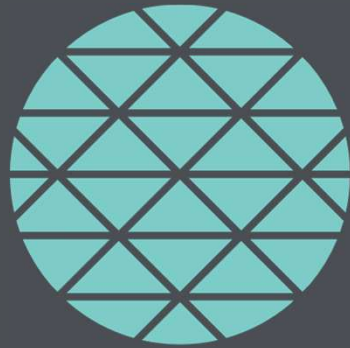


# INTRODUCTION TO CONTRACT COMPLIANCE & SUPPLIER AUDITS



# HWFisher

EXPRESS YOUR TALENT.  
DEPEND ON OURS.

PRESENTATION DECK FOR LEA CONFERENCE

April 2023

Private & Confidential

# What do we mean by Contract Compliance?

1. Identifying ongoing contractual relationships where there may be a gap between the agreed terms & conditions and actual practice.
  2. Employing auditing and detailed data management techniques and overlaying a commercial mindset to identify and value the differences.
  3. Working with both parties (clients & suppliers) to:
    - i. explain the differences identified, providing evidence to justify as well as support the valuation.
    - ii. “correct” the ongoing contractual relationship and to agree amounts to settle the retrospective errors.
- In many companies a contract compliance programme is a routine and accepted part of normal business relationships.

## What is involved in a Contract Compliance Supplier audit?

- A thorough supplier audit involves:
- Detailed review of the contractual documents which govern the relationship and financial terms.
  - Interviewing stakeholders to map out the procurement-to-pay end to end process and identify past issues.
  - Extensive data analysis across all the key audit testing areas (using primarily suppliers' data) to build-up an insightful picture of the trading relationship.
  - Leveraging past experience and insight to identify likely areas for discrepancies.
  - Conducting the audit to quantify errors fully and convert into recoveries & settlements, and in addition, recommending additional process improvement opportunities to improve contract management & service delivery.

# Contract Compliance

## Why your clients would benefit from implementing a Contract Compliance audit programme?


1. Help with the increasing pressure on the financial sustainability and cost-cutting initiatives required of organisations.
2. Facilitate enhanced scrutiny on how money is spent, exactly how much is spent and who charitable organisations partner with.
3. Gain greater transparency in contractor & third-party relationships.
4. Improve the quality of contracting and providing insight into further operational cost saving opportunities.
5. Identify and recover excess payments to the supplier.
6. Based on the findings, make immediate operational savings in ongoing relationships.
7. Financial recoveries ranging from **0.5% - 1.5% of spend** associated with a 'median / average' supplier, to as much as **2-8% of the total spend** for some audit candidates selected based on levels of control. Audits result in **significant ROI** and have a **direct impact on recovering cash** in the short term.
8. Operational improvements stemming from contractual agreements which are better managed, up to date, streamlined, transparent & easy to monitor, ultimately delivering maximum value for your organisation.

# Contract Compliance

## Why are errors, findings & recoveries commonplace?

- Most organisations often have dynamic business relationships with suppliers which can outgrow arrangements in place.
- Relationships are often governed by multiple complex contracts & undergo subsequent amendments.
- The contracts can be complex, especially with regards to e.g. pricing structures / rebates / favoured customer clauses.
- The volume of charges and line items which the invoices are comprised of is also very high. High volumes = high risk.
- The contracts often contain a number of grey areas which are open to interpretation. Interpretations = high risk.
- Stakeholders & personnel managing the contract and supplier relationship also change.
- Over the contract lifecycle there is a weakening of appropriate controls & monitoring mechanisms.

We typically examine the following high-risk areas within contracts to identify overcharges and errors:

-  1. Rates not aligned with prescribed rate/pricing schedules
-  2. Application of discounts and eligibility of bonuses
-  3. Foreign currency conversion / inflation clauses
-  4. Missing credit notes
-  5. Failure to comply with most favoured pricing clause
-  6. Inappropriate application of volume rebates
-  7. Cost plus terms not complied with
-  8. Advanced / estimated payment mechanisms
-  9. Subcontractor & other pass-through costs overstated
-  10. Inappropriate SLA / KPI reporting

# Next steps...

## How can you identify supplier opportunities and contracts for audit for your clients?

- Identify client contacts who work within **finance, procurement, internal audit, compliance & risk** functions at client companies. Best candidates for outreach tend to be finance directors and heads of procurement and internal audit at big, multinational companies.
- Look for clients who have a **significant number of contracts** with suppliers, vendors, or customers – and likely outsource a lot of business support out to third parties (**significant expenditure**).
- Identify clients who have experienced past issues with their suppliers or have had legal disputes related to contractual obligations.
- Look for clients who have recently undergone mergers or acquisitions, as this can often result in a need for contract review and compliance analysis. Also, clients who have significant ‘in-flight’ activities with their third parties, such as contracts due to be renegotiated / terminated / RFP and tendering.
- Identify clients who have complex or high-value contracts that require regular monitoring and review.
- Identify clients who have a lack of transparency over what they spend on third parties and/or lack dedicated resources for contract compliance and internal audit.
- Identify clients who are currently undergoing cost cutting initiatives or looking to recover lost profits from their supplier relationships.
- Look for clients who are open to new ideas and solutions and are looking for ways to differentiate themselves from their competitors.