



2017 INTERNAL AUDIT  
WEBINAR SERIES

# ESTABLISHING AN EFFECTIVE VENDOR AUDIT PROGRAM

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# CPE AND SUPPORT

**CPE Participation Requirements** | To receive CPE credit for this webcast:

- You'll need to actively participate throughout the program.
- Be responsive to at least 75% of the participation pop-ups.
- Please refer the CPE & Support Handout in the **Handouts** section for more information about group participation and CPE certificates.

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# DAWN WILLIFORD

SOUTH REGION LEADER | RISK ADVISORY SERVICES



Dawn Williford has more than 15 years of internal audit, vendor audit, construction audit, SOX compliance and other consulting experience. Dawn has managed a significant number of vendor and construction audits, as well as outsourced and co-sourced internal audit functions. She has also assisted newly public companies successfully achieve year-one SOX compliance.

Dawn has managed large-scale internal audit, internal controls consulting and SOX engagements, with teams ranging in size from 3 to 15 staff. She has assisted clients with design and implementation of their internal controls framework, and led the team that developed the Risk Advisory COSO 2013 methodology. Dawn assists clients with the development of their internal audit department and serves as the Chief Audit Executive for her outsourced internal audit clients.

She has identified millions of dollars in cost recoveries for her clients, found major control weaknesses, investigated allegations of fraud, and recommended and implemented appropriate action plans to strengthen internal controls.

# TODAY'S LEARNING OBJECTIVES

At the conclusion of this course, participants will be able to:

- ▶ Describe the vendor audit process;
- ▶ Identify key factors in selecting vendors to be audited;
- and
- ▶ Discuss the aspects of an effective vendor compliance plan.

# THE VENDOR AUDIT PROGRAM AND PROCESS

42 percent of companies describe themselves as highly vulnerable to vendor, supplier, or procurement fraud  
2011-12 Kroll Global Fraud Survey



Prosecutors say vendor overcharged military for fresh fruit;  
*Navy Times, 2016*



McDonald's cuts ties with chicken supplier accused of cruelty;  
*USA TODAY, 2015*

# VENDOR AUDIT PROGRAM

## WHY?

- ▶ Annual/periodic review of the vendors as part of a company's internal controls framework;
- ▶ As a proactive measure to determine their third-parties' compliance with contract clauses, as well as the company's values (code of ethics, etc.);
- ▶ Investigations into allegations of misconduct or overbilling by the third-party;
- ▶ As a self funding program to recover overcharges from vendors.



# VENDOR AUDIT PROGRAM BARRIERS

- ▶ Resources
- ▶ Contracting Issues
- ▶ Funding



# VENDOR AUDIT PROGRAM

## HOW?

- ▶ Gain an understanding of your organization's vendor contracts, billings and deliverables including pricing, cash disbursement records, and other contractual terms
  
- ▶ Discuss program scope/objectives with key stakeholders
  - Quality
  - Compliance with labor laws / HS&E regulations
  - Compliance with your company's code of conduct / policies and procedures
  - Anti-corruption and anti-bribery
  
- ▶ Total spend / categories across your vendor population

# VENDOR AUDIT PROGRAM DO WE NEED?

- ▶ Growth of the business / entry into new markets / international exposure
- ▶ Known vendor compliance issues
- ▶ Complex pricing / contract terms
- ▶ High risk to a companies reputation

*Compliance-focused vendor audits  
are increasingly being perceived as best practice  
across a wide range of industries.*



# VENDOR AUDIT PROGRAM WHO?

- ▶ Internal Audit
- ▶ Procurement
- ▶ Business Operations

# KEY SKILLS FOR VENDOR AUDITORS

## Education/Background

- Accounting
- Finance
- MIS
- Business Degree usually preferred
- Work history can include accounting, operations, finance, internal audit, risk management, public accounting, industry, engineering, etc.
- Data analytics

## Certifications

- CPA - Certified Public Accountant
- CIA - Certified Internal Auditor
- CISA - Certified Information System Auditor
- CRMA - Certification in Risk Management Assurance
- CFE - Certified Fraud Examiner

# SELECTING VENDORS TO BE AUDITED

# CONTRACT SELECTION

## WHO SHOULD WE AUDIT?

- ▶ Conduct a complete inventory of third-party activities; ranked by risk factors including:
  - Contract value
  - Corruption potential
  - Financial risk
  - Regulation risk
- ▶ Assign an appropriate process to manage each identified third-party risk/relationship (desk audit, on-site procedures)
- ▶ Ensure that controls and risk-assessment tools adapt to changes in the risk profile.

# CONTRACT SELECTION VENDOR ROADBLOCKS



# CONTRACT SELECTION RELATIONSHIPS ARE EVERYTHING





# EFFECTIVE VENDOR COMPLIANCE PROGRAM

# ESTABLISHING A VENDOR AUDIT PROGRAM

## AUDIT METHODOLOGY

Establish  
Expectations

Risk Assessment of  
Contracts/ Vendors

Plan  
Audits

Execute  
Audits

Deliver Results  
& Reporting

# CONTRACT SELECTION

## KEY CONTRACT PROVISIONS

- ▶ A well drafted Contract will include definitions or provisions around:
  - The preservation of records, book and accounts for a stipulated “look back” period
  - The right to audit for a specified period of time
  - The accounting and project-related records the provider (Contractor) is required to generate, retain, and provide to the Owner
  - The requirements that the provider have adequate internal controls to provide assurance that financial management is effective and that claimed costs are reliable and supported
  - The specific costs that are subject to the audit, and specific limitations, if any
  - The allowances for the Owner to recoup the cost of the audit if the audit detects overcharges by the provider
- ▶ The Audit Provision must be included in the original contract

# ESTABLISHING A VENDOR AUDIT PROGRAM

## SOURCING OPTIONS

### ▶ Option A - In-House

- Utilize existing internal audit / other resources to administer and perform all aspects of the program

### ▶ Option B - Co-Sourced or Outsourced

- Utilize a combination of in-house and outsourced resources
- Time and Materials
- Contingency Fee
- Hybrid Method



# ESTABLISHING A VENDOR AUDIT PROGRAM

## HOW TO ASSESS A PROGRAM'S SUCCESS

- ▶ Measured recoveries
- ▶ Increased compliance
- ▶ Improved vendor relations

# QUESTIONS





# CONCLUSION

## THANK YOU FOR YOUR PARTICIPATION!

**Certificate Availability** | If you participated the entire time and responded to at least 75% of the participation pop-up questions, you may click the **Participation tab** to access the print certificate button.

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