

February 6, 2019

Vendor Audit: A Necessary Assessment

AUDIT, ENERGY & RESOURCES

BY SCHNEIDER DOWNS PROFESSIONAL

A vendor audit is performed for a company that aims to attain an objective assessment of its contractors' or vendors' compliance to the terms, conditions and intent of the contracts and/or agreements between two entities. Vendor audits are necessary to effectively reduce cost and improve quality control throughout the procure-to-pay system. The primary areas of assessment in a vendor audit are vendor viability, management responsibility, system accuracy and data integrity, the latter of which being of particular importance in the modern business environment.

The main differences when comparing vendor audits to a typical internal audit are the focus, reporting and scope. The focus of a vendor audit encompasses examination of the entity's quality management through its procedures and data processes, whereas an internal audit looks mainly at governances, risks and the controls in place to manage those risks. Vendor audits take into consideration the internal environment and the third-party provider's adherence to established contracts.

The vendor audit provides assurance that the system is operating effectively and efficiently in the recording and payment of goods/services of appropriate quality, at the right time, in sufficient quantity and at an acceptable price. As a result, the reporting of the vendor audit is strictly to management, providing an opinion of the entity's operating processes and controls as well as third party's adherence to the standards set forth by the organization. The most desirable result of vendor audits is to achieve some level of cost reduction, which is achieved through not only direct cost reduction, but also process improvements and risk mitigation to help prevent future problems.

How can Schneider Downs help? Schneider Downs can accomplish these goals by deploying a three-phase methodology; each phase represents a separate area of focus related to the vendor audit. The three-phase approach involves identifying the system's risk assessment, investigation into the likelihood and amount of vendor overcharges, and the communication to management. The first phase of the review consists of documenting the processes to identify risks, controls and objectives. Doing so allows us to examine the system as a whole. Specifically, we might review and analyze segregation of duties, vendor histories, and potential lack of controls or oversight. This allows us to target probable breakdowns in the system where we can focus audit efforts, enabling us to quantify the issues as part of phase two by performing analytics on costs, payments and return rates. Through the use of technology, we are able to scan thousands of invoices, purchase orders, receiving reports and inventory reports to identify overcharges and system inefficiencies. Finally, phase three incorporates our findings and suggestions into a clear report and presentation to management and/or process owners that can be used as a roadmap to process optimization. Focusing efforts into these three areas allow for an

organized and effective approach to the vendor audit.

If you would like to learn more on how a vendor audit can help your organization's cost recovery efforts and operate more efficiently, we're happy to discuss this with you.

You've heard our thoughts... We'd like to hear yours

The Schneider Downs Our Thoughts On blog exists to create a dialogue on issues that are important to organizations and individuals. While we enjoy sharing our ideas and insights, we're especially interested in what you may have to say. If you have a question or a comment about this article – or any article from the Our Thoughts On blog – we hope you'll share it with us. After all, a dialogue is an exchange of ideas, and we'd like to hear from you. Email us at contactSD@schneiderdowns.com.

Material discussed is meant for informational purposes only, and it is not to be construed as investment, tax, or legal advice. Please note that individual situations can vary. Therefore, this information should be relied upon when coordinated with individual professional advice.

© 2024 Schneider Downs. All rights-reserved. All content on this site is property of Schneider Downs unless otherwise noted and should not be used without [written permission](#).