

Contract compliance advisory

Preserving relationships and increasing value



Many organisations rely heavily on a complex network of suppliers and business partners to deliver goods and services to customers. The complexity of this network has been supported by the increasing sophistication of procurement arrangements. Supplier arrangements have become increasingly complex as several organisations look to focus on their core businesses, thereby increasing the reliance on these key relationships and expanding their role. A large number of these procurement arrangements contain pricing mechanisms with an inherent blind-spot when it comes to ensuring the buying organisation is receiving the correct price:

- **Costplus pricing**
- **Open book arrangements**
- **Pass-through of costs from subcontractors**
- **Most-favoured customer (MFC) obligations**
- **Net-net pricing**
- **Target cost book/actuals.**

This blind-spot can be unintentionally exacerbated by organisational forms and processes:

- Complex role and responsibility matrix between functions for the management of contracts;
- Insufficient management of global contractual arrangements by supplier and buying organisations;
- Changes in operations which not reflected in contractual documentation, leading to ambiguous or out-of-date terms;
- Lack of detailed financial reporting which allows for day-to-day compliance monitoring.

Non-compliance can occur for many reasons, including clerical errors, ambiguous agreement clauses, lack of process controls, or even bad faith on the part of vendors.

While many vendors do not purposely overcharge or incorrectly bill the agreed charges, KPMG estimates that as much as 70 per cent of business partner/vendor self-reporting is inaccurate based on more than a thousand previous engagements our Contract compliance service professionals have performed.

KPMG's tailored contract compliance services methodology serves as a scalable framework for identifying and delivering value, regardless of the size and nature of supplier arrangements.

Our CCS services offering

Supplier audits



We can analyse indirect and direct spend categories with an aim to identify direct bottom line benefits to organisations, or provide evidence of any weaknesses within the organisations processes and controls.

Review of contractual arrangements



We can analyse contracts with JV partners, outsourced process partners, cost plus arrangements, etc. to assess the appropriateness of and compliances to contractual arrangements as well as validation of cost allocations, etc.

Advertising contract compliances



We can analyse arrangements with advertising agencies to understand actual advert placements and billing mechanisms, the actual v/s estimated costs, availing of all applicable rebates/ discounts/pass through benefits as well as compliances to all other SLAs and contractual terms.

Royalty reviews



We can analyse royalty contracts to understand the reposting systems and processes, review the underlying purchase/sales data including the supporting management information or supporting data to identify any under reporting, etc.

Distributor/reseller audits



We can analyse arrangements, with Clearing and forwarding agents, channel partners, resellers, etc. to understand misuse of any discounts/rebates schemes, evidence of any grey market activity as well as non compliances with any other contractual terms.

Potential benefits of CCS services

Self-financing

Overall these reviews are self-financing with financial findings exceeding costs by a ratio between 5 and 10:1.

Clear, commercial reporting

We analyse financial findings and explore their root cause. The objective is to place our client in a strong position.

Identifying issues early

Audits can help fix non-compliance, strengthen trust and encourage ethical behaviour.

Providing recommendations

Our reviews can help in identifying opportunities to enhance contractual language.

Global reach

We are able to tap into KPMG's network of member firms to provide contract compliance services.

Why KPMG

Value-based approach

The assessment is focussed on facts and not assumptions to help ensure transparency in our client's relationships with its suppliers/vendors.

Cost efficiency

We are ever mindful of our clients' desire for professional services to be delivered in a cost-efficient manner.

Experienced team

Our multifunctional experienced teams have a deep understanding of the typical issues and the ways by which compliance programmes can be used to reduce our clients' risk profile.

Market leadership

KPMG is a leading provider of contract compliance services to the Fortune 500. We were among the first of the competing firms to establish a dedicated contract compliance services practice and have been performing programmes of contract compliance and governance in a number of industries since 1997.

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