REDUCE SUPPLY CHAIN RISKS AND IMPROVE YOUR BOTTOM LINE THROUGH HIGH-IMPACT SUPPLY CHAIN AND PROCUREMENT CAPABILITY ASSESSMENTS
LEADERSHIP AND TEAMWORK ACHIEVE PROCUREMENT PROCESS, RISK MANAGEMENT AND PROCUREMENT CONTROLS IMPROVEMENTS

Progressive internal audit functions are well-positioned to provide high-value risk assessment and consultation support to supply management leaders and their organizations. They can achieve this by identifying and assessing supply chain risks and capabilities, and by planning for and monitoring the desired improvements in all aspects of supply chain capability. This resource guide describes an effective methodology for performing high-impact internal audit assessments for a key supply chain management (SCM) process – procurement. Procurement is a critical supply chain sub-process that exists in all industries, a process that contains a high degree of inherent and specific risk and opportunity for any organization.

Traditional procurement internal audits tend to focus on compliance with policies and procedures, regardless of relevance and context. High-impact assessments address policies and procedures within the context of the company's overall objectives, strategies, standards, ethics, goals, process aspirations and capabilities. These assessments also address external considerations such as the Sarbanes-Oxley Act; other laws; and federal, state and local regulations. Also, traditional internal audits tend to focus on the most basic purchasing and accounts payables controls (three-way matches, duplicate payments and compliance). While as important as ever (reference Sarbanes-Oxley Act compliance), these audits alone cannot provide optimum value for supply chain and procurement leaders and other stakeholders in the procurement process.

Across all industries, supply chain and procurement risks and opportunities abound. The highly visible and less-controllable risks, such as acts of terrorism, critical labor stoppages and port closures, infectious diseases, and natural disasters, cause high levels of concern and uncertainty. But supply chain and procurement/sourcing risks of a far more mundane and controllable nature exist throughout most businesses. Unless these risks are identified, prioritized, assessed and mitigated, they can have devastating results on any business.

These more controllable risks are:

- Financial/total cost/price (including sourcing)
- Product/service outsourcing
- Global sourcing (services and products)
- Regulatory
- Legal and contract-related
- Planning, forecasting and alignment (demand/supply imbalance)
- Supply interruption
- Supplier qualification
- Customer service and satisfaction
- Inventory/obsolescence
- Human resource (skills, qualifications, competencies, organization, culture)
- Information for decision-making (management, measurement, and control information)
- Efficiency
- Compliance
- Technology/systems

Effective supply chain risk management ensures continuous assessment of risk across each component of supply chain capability and within each major process area of the supply chain. These components of capability as referred to here include 1) strategy and policy, 2) key business processes, 3) organization and skills (including culture), 4) information for decision-making, measurement and control, and 5) systems and data.

The first step in the process is to identify and assess significant procurement risks and to assess each of the components of procurement capability. Once consensus is achieved, the next step is to agree on performance targets for each component of procurement capability, and to identify risk management objectives, tolerances, monitors and controls. A set of integrated action plans to achieve the desired levels of procurement capability performance and maturity and risk management and control will be defined with the management team. These integrated plans will include immediate, mid- and longer-term actions.
Supply chain management incorporates processes used to plan, source, produce, administer, store, and deliver services and products to customers. In addition to these processes, a holistic approach to SCM incorporates activities at the supplier, at the supplier’s suppliers, and outward at the customer and the customer’s customers. SCM also includes the information and financial transactions and controls enabling those processes. The performance of the supply chain and the maturity of the supply chain management capabilities have a far-reaching impact.

Supply chain management capabilities in an organization include the strategies, policies, processes, information for decision-making, measurement and control, and systems and data required for the effective management and control of the supply chain as a whole, as well as the individual processes and risks with the supply chain.

The sub-processes of SCM are:

**Plan:** Includes sales and operations planning (S&OP), sales planning and forecasting, operations and production planning, master scheduling (demand and supply management)

**Store:** Includes warehousing/distribution center design and management, inventory management and inventory control activities

**Source:** Includes procurement activities such as strategic sourcing, supplier management, category/commodity management, contract management, purchasing execution (materials and services)

**Sell:** Includes customer order scheduling, order administration, and order management and control activities

**Produce:** Includes manufacturing processes such as production and inventory scheduling and control as well as a range of aligned product and process engineering/manufacturing activities

**Transport:** Includes transportation, traffic management and shipping and delivery of goods

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**Why carry out a procurement capabilities assessment?**

Typically, 35 to 65 percent of an organization’s revenues are spent on goods and services. For some that percentage can be as high as 80 percent. Today’s business environment has driven the need for organizations to prioritize the efforts of internal resources and to focus on core competencies. This leads those organizations to choose to do more outsourcing of goods and services. Additionally, global sourcing continues to be an ever-increasing attraction for the cost-conscious organizations of today as well as to those with a view to growing international market share and capability. Savings of between 10 percent and 35 percent are most commonly reported from enterprises that engage in global sourcing. All indicators point to continued growth in global sourcing and general outsourcing.

However, at the same time, many enterprises are still a long way from effectively managing procurement risks and capabilities. In a recent study, just half of the organizations surveyed reported having formal, effective mechanisms and tools to support spend analysis and other strategic sourcing activities. Making matters worse, those organizations with the sourcing tools and methodologies address just 50 to 60 percent of third-party spend (Aberdeen Group & Penton Media, Jan. 2003). While outsourcing of goods and services supply is a highly effective strategy, risk and control can almost never be outsourced. Organizations retain the risk and the risk management responsibility, but often do not have the processes, people, controls and other capabilities in place to manage those outsourcing-related risks effectively.
Developing effective companywide procurement capabilities can be highly rewarding. The survey cited above also indicated that those who leveraged even 50 to 60 percent of procurement expenditures have seen an average savings of 12 percent of their total spend. Meanwhile, cost reduction continues to be a high priority in most industries today. One obvious and significantly less intrusive option for the organization is to prioritize its efforts toward the optimization of third-party expenditures and overall value received from the supply base.

Almost every dollar saved through better procurement drops to the bottom line. Compare this to the bottom line impact of each additional revenue dollar earned, be that 15 cents, 10 cents, 5 cents or less. And it is extremely difficult for most organizations to generate increased revenue.

Supply chain professionals and their internal customers understand that cost is not the only major risk and opportunity area associated with third-party sourcing. Nor is cost the only reason for ensuring that procurement capabilities and controls are in place and well-managed. The maturity of procurement capabilities is critical to the management of a wide range of supply-related risks. These include:

- **Strategy** - No overall strategic plan for procurement is defined, or if one exists, the plan does not attract companywide executive-level support, or it is not aligned with business strategies
- **Policy** - Ineffective or outdated policies do not adequately reflect or enable strategies and objectives
- **Process** - Lack of discipline and controls in strategic sourcing and spend category management, supplier management, contracts management and purchasing execution
- **Performance** - Supplier and contract performance and compliance issues (quality, shortages, lack of supplier innovation and/or flexibility, contracted expectations are not managed/realized, etc.)
- **Competency** - Procuring personnel, in a central or decentralized structure, lack adequate qualifications and skills to effectively manage and execute sourcing, contracting, supplier management and other procurement processes
- **Information** - Lack of timely, reliable spending and performance information and/or transaction integrity for sourcing and decision-making; lack of timely and accurate information for measurement and control of expenditures, suppliers and contracts
- **Technology** - Systems and technology are not adequately supporting the procurement process, and insufficient data integrity within the systems leads to inaccurate and/or untimely information for decision-making, measurement and control
- **Other risk areas** - Fraud, reputation risks, process efficiency, legal and regulatory compliance, Sarbanes-Oxley compliance

The capabilities assessment enables a fully integrated, strategic view of all aspects of the procurement activity. Procurement expenditures are analyzed, increased value and performance improvement opportunities are highlighted, and key sourcing and supply risks and control weaknesses are unearthed. The assessment enables an unemotional benchmarking of current practices, encouraging management and the audit team to reach a consensus on current capability maturity as well as maturity objectives for each area of procurement capability going forward. Providing such consensus and clarity often leads to the creation of a set of integrated goals and plans for the development of procurement process capabilities.

Whether an organization chooses to procure in a centralized or a decentralized manner is not a primary issue for a procurement capabilities assessment by internal audit. The buying structure, roles, skills, qualifications and accountabilities for all expenditures with third parties will be considered in the assessment. Therefore, this assessment should not be mistaken for an internal audit of the purchasing department. Rather, it is a review of the organizationwide procurement process and all related procurement capabilities for the procurement of all types of goods and services.
PROTIVITI’S PROCUREMENT CAPABILITIES ASSESSMENT – METHODOLOGY

An overview of Protiviti’s Business Risk Assessment Methodology is depicted in Figure 1.

The procurement capabilities assessment incorporates an entity-level review of overall business objectives and strategies. The first component of procurement capability – procurement strategic plans, objectives, expectations, risks and associated policies – is reviewed at this point. This entity-level review is followed by a step-by-step evaluation of all other key elements of procurement capability, at what is known as the process level. These other components of procurement capability are:

- Procurement processes including strategic sourcing, spend category management, supplier management, contract management and purchasing execution
- Organization and skills pertaining to the procurement of all goods and services
- Procurement information for decision-making, measurement and control
- Procurement systems and data

The final step in the assessment is the communication of results and agreed action plans to management.

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<th>Assess</th>
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| Understand the business  
- Strategy and objectives  
- Organizational structure  
- Industry business environment  
- Identify and define risks and opportunities  
- Surveys  
- Focus groups  
- Benchmarks  
- Define and identify relevant processes  
- Understand processes at a high level  
- Source risks and opportunities to processes  
- Prioritize risks and opportunities | Understand the issue/problem  
- Develop project objectives  
- Determine project plan  
- Appropriate staffing  
- Timeline  
- Milestones  
- Budget  
- Refine project definition with client  
- Obtain final approval and communicate project plan | Determine evaluation criteria  
- Gather, evaluate and analyze data  
- Diagnostics  
- Analytical models  
- Benchmarking data  
- KPIs  
- Document existing infrastructure [5 capabilities]  
- Evaluate design effectiveness against established criteria [CMM]  
- Test operating effectiveness  
- Determine gaps and identify root causes | Formulate and validate conclusions and potential solutions  
- Develop high-level solutions  
- Formulate preliminary recommendations  
- Validate facts and underlying assumptions for recommendations  
- Present final recommendations  
- Determine next steps |

Procurement Capability Maturity Model

Following is a very high-level description of the overall Procurement Capability Maturity Model consolidating the five stages or levels of maturity. It describes overall characteristics of procurement capability at each level of maturity from Initial (ad hoc) to Optimized. It also identifies how each stage of maturity is typically achieved.

The Procurement Capability Maturity Model is designed and populated at several levels of detail (not shown here). These models describe specific characteristics of each of the capability components at each level of maturity. The five components of capability are: 1) strategy and policy, 2) processes, 3) organization and people, 4) information for decision-making, and 5) systems and data. The interdependency among the components of capability is total. For example, an organization could have outstanding strategies and processes, but absent skilled and qualified people to execute the processes, the strategy will fail and the processes will not deliver on expectations.

All five components have been predefined for each maturity level. This enables the assessment and benchmarking of an organization’s current and planned levels of capability maturity for each component. This also facilitates goal setting, consensus building, and strategic planning for supply chain/procurement in the course of the assessment/internal audit.
### Initial

(Ad Hoc), The supply base is not effectively leveraged and supply performance is generally not effectively or formally monitored and managed. Procurement risks are controlled in an ad hoc fashion. Process performance is reliant largely on trust/heroics, absent sufficient procurement professionalism. There is no overall strategic plan and standards and policies for procurement are generally absent. Key information, controls and performance are difficult to measure and analyze.

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<td>(Intuitive)</td>
<td>Growing recognition and action relating to risks and opportunities associated with major third-party spend areas. More policy and process design helping to promote common expectations and workflows. More procurement professionals focused on key areas of spend and supported by dedicated business unit professionals. Some supply base consolidation, somewhat informal. Disparate systems provide some useful information for decision making. Data standards still weak. Key process monitoring/auditing.</td>
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<tr>
<td>(Formal and Quantitative)</td>
<td>Integrated procurement and sourcing strategies. A comprehensive set of standards, policies, and integrated, effective and efficient processes. The supply base is consolidated. Rigorous monitoring of performance, process risks and controls is occurring. Effective procurement tools are in place. Clear process ownership is assigned to procurement. A skilled procurement team is aligned to complement business teams. Full suite of procurement and e-purchasing systems/tools. Excellent data quality.</td>
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<tr>
<td>(Continuous Improvement)</td>
<td>Strategic plans are fully aligned with business and key supplier plans. These plans emphasize continuous increase in (mutual) return and value. Major emphasis on exploiting risks and opportunities with the supply base and across the supply chain. World-class integrated procurement and supply chain processes and systems. Critical knowledge is readily available, shared internally and with the supply base. The highest possible value from the supply chain is assumed. Process ownership and excellent teamwork.</td>
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### Repeatabale

(Ad Hoc), The supply base is not effectively leveraged and supply performance is generally not effectively/or formally monitored and managed. Procurement risks are controlled in an ad hoc fashion. Process performance is reliant largely on trust/heroics, absent sufficient procurement professionalism. There is no overall strategic plan and standards and policies for procurement are generally absent. Key information, controls and performance are difficult to measure and analyze.

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<td>More formal procurement and sourcing strategies. Policies and robust processes are defined. Much improved systems and tools along with data quality and standards. Considerable supply base consolidation occurring. Increasing procurement skills, complementing and including operations management. Systemic process and controls compliance testing. Increased automation in purchasing. Contracting and supplier management standards defined. Transaction efficiencies and good controls achieved.</td>
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### Defined

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### Managed

(Ad Hoc), The supply base is not effectively leveraged and supply performance is generally not effectively/or formally monitored and managed. Procurement risks are controlled in an ad hoc fashion. Process performance is reliant largely on trust/heroics, absent sufficient procurement professionalism. There is no overall strategic plan and standards and policies for procurement are generally absent. Key information, controls and performance are difficult to measure and analyze.

### Optimized

(Ad Hoc), The supply base is not effectively leveraged and supply performance is generally not effectively/or formally monitored and managed. Procurement risks are controlled in an ad hoc fashion. Process performance is reliant largely on trust/heroics, absent sufficient procurement professionalism. There is no overall strategic plan and standards and policies for procurement are generally absent. Key information, controls and performance are difficult to measure and analyze.

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Step 1. Understand Business Objectives and Procurement Strategic Plans and Policies

The first step is to understand the company’s overall strategic objectives and how well procurement activities and plans are aligned with those objectives. This involves developing an understanding of:

- Management’s overall strategic objectives – corporate and business-unit level
- Management’s expectation of its suppliers and from its expenditure with its supply base
- Inherent supply/sourcing risks in the process as they apply to the organization
- The specific strategic plans and policies in place to achieve procurement expectations

In the course of understanding management’s future expectations of the procurement process, it is important to achieve a consensus. That consensus can later be summarized into procurement capability maturity terms. This enables management to understand, document, and communicate short-, mid- and longer-term objectives at a high level.

In the first phase of the capabilities assessment, business-unit management and stakeholders are interviewed by internal audit to discuss and document stakeholder objectives, key strategies, values, and expectations for procurement and the related expenditures. Documented strategic plans and business plans for procurement are reviewed. These plans may contain overall and specific objectives/goals, and the mission and vision pertaining to the procurement of goods and services. Quite often these are not formalized in an organization.

As these strategic intentions and plans are being studied, specific plans relating to the performance of current procurement processes and practices; processwide organizational competency development needs and plans (central and decentralized); requirements and plans relating to procurement information for decision-making, measurement and control; as well as plans for tools and systems to support the procurement process are also reviewed. Once overall business and procurement objectives and strategic plans and improvement plans are understood, current procurement policies, plus those being developed (or planned to be developed) to support those objectives and plans, are also reviewed.

The internal audit team also begins to identify and document inherent procurement risks, along with specific risks to achievement of procurement objectives and to the execution of related plans. In addition, the internal audit team uses the interviews to discuss and document information about important organizational competitive pressures and any company or business-unit culture issues that are likely to impede the attainment of procurement objectives.

In parallel, expenditure data are analyzed to better understand third-party expenditures for the business. Expenditure data may be extracted from a wide range of systems, including purchasing and accounts payable systems, stand-alone systems, modules within ERP/MRP systems, and/or other legacy systems. All sources of expenditure data are sought, including P Card expenditures. This analysis also enables the team to develop an understanding as to the availability and integrity of the data and information generated for procurement-related activities, decision-making, performance management and controls.

The expenditure information is presented to management in a series of reports, including supplier, commodity, system/source and so on. The quality of the analysis depends on the integrity of the data and the application of standard coding procedures and controls (supplier codes, commodity codes, etc.).

An important aspect of the Procurement Capabilities Assessment is the supply risk focus that the internal audit teams brings to the process. To identify inherent and specific risks, we use Protiviti’s Procurement Business Risk Model™.
Protiviti's Procurement Business Risk Model™

Protiviti’s Procurement Business Risk Model contains a variety of procurement/supply risks that are inherent to the process. Although many of these risks are also common to other business processes (e.g., legal risk, human resource risk, efficiency risk), the reference model addresses how these risks apply to procurement. It also includes specific examples of how each risk manifests itself in the procurement process.

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Protiviti leverages tools and processes to help organizations to identify, quantify and measure supply risk from an impact and probability perspective. The risks are then prioritized and the likely impact and cost/return of various mitigation strategies are calculated for management review and decision-making.
Step 2. Procurement and Procurement Risk Management Processes

With a view to management's strategic procurement objectives, the maturity of each procurement process is reviewed and benchmarked. Core procurement processes and procurement risk management processes include strategic sourcing methodology, supplier management, category/commodity management, and contract management, as well as various formal and informal purchasing execution processes. This step includes a review of the design, effectiveness, consistency and efficiency of these processes as well as associated compliance and controls practices. The objective is to assess these processes and controls to determine whether they can effectively support the successful achievement of the procurement objectives, strategic plans and related policies.

With disciplined, best practice-based procurement processes, excellent risk management and control will likely be achieved. For example, strategic sourcing practices require that supply risk and impact be evaluated for each expenditure category/commodity. That analysis of risk and impact creates the foundation for the creation of the specific sourcing strategy, the selection of suppliers and the subsequent management of suppliers (see below). Disciplined contract-management practices control the pre-planning, scope/specification development, contract negotiation planning, actual contract negotiation and, just as importantly, post-award contract management and administration activities.

Developing sourcing strategies - Supply risk/profit matrix/framework

Quadrant 1: Low supply risk, low profit contribution
  Strategy: Minimize attention

Quadrant 2: High in supply risk, low in importance to profit
  Strategy: Control supply

Quadrant 3: Lower risk of supply, high profit importance
  Strategy: Maximize leverage

Quadrant 4: Higher risk to supply, higher profit impact
  Strategy: Maximize Value

We assess these processes by conducting interviews, carrying out document reviews (plans, policies, procedures, process maps, contracts, meeting minutes, contracts), and executing specific audit tests.
Step 3. Review People and Organizational Capabilities

Successful procurement is dependent on the availability of people with the required skills and qualifications to execute mature/disciplined processes. The main objective of Step 3 is to evaluate the procurement process skills and competencies required, available, or being planned for the entire organization. The maturity of an organization’s procurement skills and competencies is critical to the achievement of desired objectives and strategies, and to the execution of procurement processes and controls.

Those organizations on the higher end of the maturity scale ensure that procurement and other supply chain functions and personnel have clearly defined and up-to-date job descriptions and position skills matrices. These organizations provide individually tailored training and development programs and learning solutions for their people and for specific job levels.descriptions.

These learning solutions address technical, strategic, tactical, managerial and other aspects of the work and are supported with leading-edge education and training programs. Organizations on the high end of the maturity continuum often provide the best educational courses and certification programs for their people, including the strategic-level enterprisewide Certification in Integrated Resource Management program (CIRM), and the cross-functional, operations-focused Certification in Production and Inventory Management program (CPIM), a gold standard in supply chain education. Both of these certifications are supplied by APICS.

Activities for this step of the assessment include developing an understanding of the roles, qualification requirements, current qualifications, skill levels, reporting structures, accountabilities, purchasing authorization levels, and the overall capacity of the organization to do the work. This review incorporates centralized and decentralized buying activities.

It is also important at this phase to understand organizational culture realities. Any conflicts with a “process-focused” approach to procurement will be identified. It is important that the internal audit/risk assessment examines and documents any actual or potential barriers to the successful implementation of procurement strategies.

This phase is accomplished through interviews and augmented by reviews of documentation and data, including organization charts, surveys, training and development plans, training materials, skills and qualification matrices, authorization charts, job descriptions, budgets and so on. As with the other steps in the assessment, the current people and organization capabilities are benchmarked using the Procurement Capability Maturity Model.

Step 4. Information for Decision-Making

Effective and efficient procurement is dependent on the availability and integrity of information and data used in the management, measurement and control of procurement expenditures, suppliers, contracts and risks. The main objective of Step 4 is to evaluate the integrity, availability and relevance of procurement information and data. The purpose of this phase is to evaluate and benchmark the effectiveness of available procurement information for the management and control of strategic sourcing, supplier and category/commodity management, contracting and execution activities, risks, and expenditures.
The assessment serves to identify how effectively data and information are used for the measurement, management and control of all of the procurement processes. Methodologies and tools in place to support these activities are also reviewed, as are future plans to improve the availability and integrity of data and methodologies for accessing and using this information for decision-making, management, measurement and control. This critical capability is also benchmarked using the Procurement Capability Maturity Model.

Interviews; documentation reviews; and analyses of purchase-order data, accounts payable data, and other third-party expenditure data, as well as supplier and contracts performance data, are conducted in this part of the assessment. Information available should enable the organization to routinely understand how much it spends, with whom, and for what. It should also enable the organization to monitor and control supplier performance, contracting and contract compliance, supply market information, the execution of purchases and disbursements, and so on. Specific risks and opportunities relating to the client’s procurement information are identified, as are risks and weaknesses in procurement controls. The absence of timely, complete and accurate procurement information for management, measurement and control is a highly problematic area for many organizations.

### The Sarbanes-Oxley Act of 2002

The passage of the Sarbanes-Oxley Act (SOA) in 2002 has driven an even greater awareness and need for improved visibility, control and management over third-party relationships, expenditures and transactions, as well as for an understanding of related supplier risks (including supply interruption risks) that may have a significant impact on financial performance, reporting and disclosures. This increases the need for mature, effective capabilities over supplier sourcing; supply risk management; supplier and spend visibility and control; and the creation, management, and control of supplier contracts.

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<th><strong>Section 302</strong></th>
<th><strong>Section 409</strong></th>
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<td>Addresses executive-level responsibilities for disclosure controls and procedures over material information included in public reports; effective financial and procurement processes, including authorization and spending controls, and management of outstanding purchase commitments and risks contribute to full disclosure.</td>
<td>Addresses the requirement to disclose information on material changes in the company’s financial position and results of operations quickly on a “current and rapid” basis; therefore, changes over time in procurement and expenditure processes and in the related risks should be evaluated in this context.</td>
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<th><strong>Section 401</strong></th>
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<td>Addresses disclosure requirements in specific areas including off-balance-sheet transactions, pro forma disclosures and special purpose entities; relationships with third parties, including suppliers, may have reporting implications requiring consideration.</td>
<td>Addresses record retention by external auditors; management may want to consult with counsel to ensure the organization’s retention practices are appropriate in light of the realities of today, including retention practices affecting the entity’s procurement and disbursement processes.</td>
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<td>Addresses responsibilities for internal control over financial reporting, including an annual assessment by management of the effectiveness of such controls with the external auditor attesting to that assessment; all key procurement and disbursement processes affecting financial reporting must be effectively controlled in a manner that is auditable.</td>
<td>Addresses senior executives responsibilities for certifying accuracy of the financial condition of the company’s reports; as with Section 302, effective procurement and disbursement processes and controls must be in place to provide reliable information.</td>
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Step 5. Procurement Systems and Data Standards

In recent years, excessive emphasis has been placed on technology, leading to false promises and expectations. This focus has often obscured the importance of other key supply chain and procurement capabilities such as strategy, process, people and information. On the other hand, technology is continually improving. Technology combined with disciplined data standards forms a foundation capability for skilled and qualified SCM and procurement people to operate mature processes, and provides timely and accurate information to successfully implement the organization’s strategies and objectives.

The main objective of Step 5 is to evaluate the strengths and weaknesses in the current procurement systems portfolio, and to assess data disciplines and standards required for procurement information for management, measurement and control. Strategies and plans for future procurement systems and tools are also reviewed and understood. Combined with the understanding of the organization’s objectives and expectations for procurement, it can be determined whether the current systems, systems development plans and data standards meet current and future needs of the organization. This is not an in-depth systems review.

Activities for this step include reviewing the current systems and tools inventory supporting procurement as well as procurement systems strategies and/or plans. Key users of procurement systems are interviewed; practices, procedures and controls for maintaining standardized procurement data and codes are reviewed; and a general understanding of the strengths and weaknesses in current system functionality and data disciplines is obtained. IT personnel are interviewed to understand the IT strategy relating to the enterprisewide system platform(s) direction as it relates to procurement, and risks, gaps and opportunities are documented. Current systems and data capabilities are benchmarked using the Procurement Capability Maturity Model.

Step 6. Communicate Results

At this point the organization’s objectives and strategies have been reviewed. The assessment has also identified the overall contribution potential and risks associated with third-party procurement. Management consensus has been sought on the organization’s objectives and expectations for 1) the procurement process as a whole, 2) the management of third-party expenditures, 3) value to be achieved from and performance expected of the supply base, and 4) the management and control of supply risks.

Throughout the review, objectives and expectations have been mapped to the Procurement Capability Maturity Model, thus facilitating easy identification of target levels of maturity for each capability component. The inherent and specific risks in the organization's procurement process are documented and discussed. At each step, current capabilities are evaluated and benchmarked: the overall procurement strategic plan, procurement policies, procurement processes, organizational structure, skills and competencies, information for decision making, and procurement systems and data. The current state and planned improvements are accounted for in the benchmarking. Consensus building and elements of self-assessment are inherent in the approach.

The final step is to provide management with an executive summary of findings and recommendations. Recommendations link directly to management’s objectives and expectations. Action plans are prioritized and realistic, based on closing the gap from current capabilities to desired capabilities spanning short-term (weeks) mid-term (months) and longer-term (years) horizons. A detailed report for each component of capability describes issues, risks, strengths and actions covering immediate-term, mid-term and longer-term horizons. These action plans should be integrated across the various capabilities. (Protiviti also provides an analysis of expenditures to support its findings and recommendations.)
CONCLUSION

This high-impact assessment provides management with valuable information. The assessment also:
• Helps the organization leverage and control a major portion of the organization's expenditures
• Helps supply chain/operations executives develop a plan to achieve superior returns from the supply base
• Helps management apply a more formal methodology for identifying, prioritizing and managing supply risks

This assessment enables the internal audit organization to provide management with ongoing support for:
• Monitoring the progress of the plans
• Carrying out specific audits and tests of the improved process capabilities and controls
• Providing project risk management reviews and advice to help ensure that process, IT and other procurement capabilities projects and plans are effectively executed and meet expected outcomes

This type of assessment and partnership is highly valued by management. The approach helps to enhance the relationship and mutual trust between the business/functional leaders and internal audit. While retaining its independence, internal audit becomes a valued and ongoing business partner to supply chain and operations leadership, making a significant contribution to the achievement of sustained superior performance results.

These results are only achieved when there is a shared commitment to the pursuit of procurement process excellence, supply base optimization and enhancement of procurement risk management capabilities. Both parties take a planned and thoughtful approach to improvements, incorporating short- and longer-term views of capabilities and risk management (three-year horizon is typical).

Finally, when executed properly, this capabilities assessment approach makes buy-in by the procurement, supply chain, operations and business-unit executives easier to achieve. The internal audit team must exhibit sincere respect for the management and personnel in the organizations affected by the audit. This cannot be overstated. Trust and mutual respect are critical in high-impact assessments of operations. In the course of the assessment, consensus around current risks, opportunities, current capabilities as well as management's objectives and expectations for procurement going forward must be achieved. This can only occur when the auditor and those being audited are on the same page.
ABOUT PROTIVITI INC.

Protiviti is a leading provider of independent internal audit and business and technology risk consulting services. We help clients identify, measure and manage operational and technology-related risks they face within their industries and throughout their systems and processes. Protiviti also offers a full spectrum of internal audit services, technologies, and skills for business risk management and the continual transformation of internal audit functions.

Protiviti, a wholly owned subsidiary of Robert Half International Inc. (NYSE: RHI), has more than 30 locations in North America, Europe and Asia.

About Protiviti’s Supply Chain Risk Consulting Service Line

At Protiviti, we draw on our deep procurement process knowledge and experience, and our risk and business consulting and internal auditing expertise. We use the most current and proven procurement/supply risk management techniques and tools. We constantly seek to improve our knowledge and to develop and enhance our supply risk management tools and methodologies in conjunction with our clients. We provide independent supply chain and procurement risk consulting services on a project-by-project basis. We also provide such service to our clients through the internal audit channel. We serve clients across the full range of industries.

We leverage our in-depth and up-to-date knowledge management database and cross-industry experience to help management at our clients to develop achievable and results-focused action plans for their organizations. These plans address all procurement capabilities in parallel, recognizing the interdependencies among capabilities. What results is an agreed-upon, integrated, and actionable set of short-term, intermediate and longer-term plans that help drive cross-functional and executive-level buy-in and commitment as well as superior business results.

About the Author

Philip O’Keeffe is co-leader of Protiviti’s Supply Chain Risk Consulting service line. O’Keeffe spent 20 years in supply chain, procurement and operations management leadership positions in a number of industries in Europe and the United States before joining the consulting industry in 1998. He is passionate about helping clients improve supply chain management performance and risk management capabilities. O’Keeffe specializes in procurement/sourcing, resource planning, scheduling and control as well as strategic planning. The integrated approach between functional leadership and internal audit discussed in this article is one that O’Keeffe personally experienced and helped develop as a procurement executive at a major multi-national, high-technology company.

For more information about Protiviti’s Procurement Capabilities Assessment or other Supply Chain Risk Consulting Services please contact: Philip O’Keeffe – 312-476-6393, or philip.okeeffe@protiviti.com

About APICS

APICS is the recognized global leader and premier provider of inventory and supply chain management education and information for individuals and organizations. For more than 45 years, APICS has been setting the standard in professional certifications, education programs, and publications for manufacturing and service industry professionals across the entire supply chain. APICS is the source for solutions, training, and networking through local chapters, international associates, workshops, symposia, and the annual APICS International Conference and Exposition. The nearly 60,000 members in 20,000 companies worldwide share the APICS vision of lifelong learning for lifetime success. Learn more about the APICS community at www.apics.org
Protiviti is the leading provider of independent internal audit and business and technology risk consulting services. We help clients identify, measure and manage operational and technology-related risks they face within their industries and throughout their systems and processes. And we offer a full spectrum of internal audit services, technologies and skills for business risk management and the continual transformation of internal audit functions.