

# Contract risk and assurance

Delivering value from your key contracts and suppliers





Contract execution and performance is considered a critical success factor for organisations today.

The extent to which third party contracts are governed, risk managed and performance monitored, will fundamentally influence the extent to which an organisation has the ability to be operationally resilient, contingency planned and commercially and strategically successful.

Given that it is commonplace, for organisations to outsource and manage third party relationships contractually, it goes without saying that ‘keeping your arms’ around revenue, cost, risk and compliance contractual obligations is of paramount performance.

Many organisations generate revenues via royalties and licensing and may also have entitlements to discounts, rebates and incentive payments via preferred customer and volume-based arrangements.

Under these arrangements, payments and receipts are often based on financial data provided via a self-certification or self-declaration process which can be difficult to assess and verify. Robust controls that support the critical assessment, oversight and reporting of these arrangements are essential to assure the completeness and accuracy of related income streams and operational costs.

- supply chain;
- IT;
- distribution/reselling;
- facilities management;
- maintenance;
- manufacturing;
- construction/subcontractor arrangements;
- customer services;
- digital content/advertising;
- and
- strategic alliances/joint ventures.

# Our approach

At Grant Thornton, our contract assurance services can be engaged to address any or all of a range of contract risk and assurance priorities including:

- contract management process;
- governance considerations;
- risk management oversight;
- key performance indicators;
- incentive structures;
- cost verification and profit sharing;
- contract compliance, administration, accounting and reporting;
- contract supply chain and subcontractors; and
- verification of contractual milestones.

Our experienced professionals conduct these reviews in a constructive fashion, providing clarity and objective assurance and benchmarking contract provision against best practice parameters to deliver practical and pragmatic solutions.

## The key stages of our approach are:

### Plan



- review contract to identify key stakeholders, objectives and timelines;
- assess contract risk, qualitative and quantitative;
- identify where oversight may be complex or difficult to implement; and
- agree assurance approach with all parties, focusing on key contract milestones and financial attributes.

### Review



- using our contract assurance framework, we perform a gap analysis of actual versus contracted services;
- validate costs charged vs performance/milestones/service levels achieved;
- review contract processes and controls to identify deficiencies; and
- consider use of data interrogation and other data analysis techniques.

### Report



- process and control improvement recommendations;
- cost recoveries;
- governance and risk oversight enhancements; and
- contract relationship management.

# Contract assurance framework

We have developed a contract assurance framework to assist our clients in effectively managing outsourced relationships. This identifies the key elements of contract management and will ensure that our services are tailored to meet your specific needs. We provide an holistic approach which will enable you to achieve positive responses to the following key questions.

## Performance

- Have you ensured that contracts are fit for purpose?
- Are reward and incentives structures appropriately designed to measure and enhance contractor performance?
- Is there an appropriate use of technology to drive efficiencies in managing and delivering the contract?
- Is the contract delivering the value you expect?
- Is there a clear audit trail and concise management reporting aligned to key outputs of the contract?
- What are the escalation protocols where performance is not in line with targets?
- Is there a culture of taking action to deal with poor performance?

## Cost control

- Are cost control processes robust?
- Are cost leakages on existing ongoing contracts being identified, managed and monitored?
- Do your contractors maintain appropriate accounting records to provide you with transparency over costs incurred?
- Do your contractors operate effective supply chain controls to drive cost efficiencies?
- Are cost forecasts accurate?
- Are overruns being reported on a timely basis?

## Pricing

- Are you overpaying your suppliers?
- Are you being charged for additional services outside the scope of the contract?
- Do you have clarity around commercial risks and complex pricing models?
- Do you have clarity around contractual rates, payment, variation, break costs and penalties?

## People and change

- Do management reports contain sufficient detail with regards to the use of sub-contractor providers?
- Is there appropriate engagement between the organisation's operational managers and their third party service providers?
- Is the supplier side roles led by personnel with appropriate skills and knowledge?
- Have contractors established appropriate change management procedures?
- Are change processes sufficiently robust to deliver value for money?
- Are excessive levels of contract variations leading to scope creep or additional costs?

## Governance and risk oversight

- Is the contract being managed effectively?
- Are appropriate contractor oversight processes and controls in place and applied consistently?
- Do you benchmark existing contract governance to best practices?
- Do governance and contractual arrangements include appropriately defined service standards?
- Are the roles and responsibilities of the contractor clearly defined?
- Are risk management processes adequately robust to ensure contract risks and delivery of outputs can be identified, quantified, managed and monitored?
- Are supply chain risks understood and managed?
- Do you have assurance around technology risks in managing, delivering, reporting and billing of the contract?
- Do contractors understand and adhere to your information security requirements?
- Are appropriate performance/risk metrics being reported timely to management?
- Is continuity/contingency planning and right to audit third party suppliers considered and built into contracts?

## Customer impact & relationships

- Does your outsourcing/contractor strategy support your organisation's brand and reputation?
- Do your contractors have a reputation for delivering high product/service quality?
- Are your contractors flexible in dealing with your urgent queries?
- Do governance arrangements drive the appropriate level of engagement with your strategic partners/suppliers?
- Do your resource costs align with those initially agreed in the contract?
- Do you have a proactive relationship with your contractors?

## How we can help

At Grant Thornton, our contract risk and assurance service provides you with assurance and drives improved performance from your third party relationships. We assist clients in analysing their contractual arrangements and contract compliance involving customers, vendors, licensees, resellers, and distributors.

We help them improve contract governance, risk and control mechanisms as well as the reporting and communication between the parties so as to assure the value of contractual arrangements is realised whilst also enhancing future contract performance.

We can assist clients with:

- supplier/vendor agreements/contingency management;
- reseller and distribution channel compliance;
- facilities/maintenance/customer services compliance;
- software asset management;
- software end-user licences; arrangements;
- manufacturing rebates/volume discount regimes;
- digital content compliance; and
- construction/subcontractor risk management.

## Contacts

If you would like to know more about our contract risk and contract assurance services, please contact a member of our team.



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