



# Performance Audits

Key to Enhanced & Sustained Supplier Performance

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# Underlining the Need of Vendor Audits in the World of Supply Chain Operations

It was the June of 2012, and the city of Toronto in Canada was gearing up for a summer concert by the wildly popular British rock band, Radiohead. However, the events took a turn for the worse when the temporary stage constructed for concert collapsed, injuring three members of the crew and killing the drum technician Scott Johnson. And even though it seemed like a comparatively low-damage incident and thus of lesser significance, the case garnered global attention due to the popularity of the band.

Two separate inquests in 2019, in Canada and in the UK, found serious technical flaws with the construction of the stage that alluded to the contractors overlooking critical construction elements and design components. It further ascertained that the project was completed without required and necessary site inspections. In fact, the coroner's exact findings were "inadequate technical advice" and "wholly inadequate construction techniques" that resulted in the incident.<sup>1</sup>

The potential consequences of such serious lapses need little explanation. Apart from government enforcement actions that often lead to monetary penalties, the cost of a serious supply chain disruption can also include defamation and suppliers unwillingness to collaborate in future projects. Fallouts are often extensive for larger corporations with diverse suppliers.

In today's fast-paced business environment, suppliers and contractors play a critical role as an extended arm of the hiring organization. They can help companies realize additional value through their specialized skills which may lead to better quality of work. However, working with them also makes businesses susceptible to increased risks such as costly outages arising from the risk of failures, poor quality standards, lack of proper safety control measures and cost containment challenges due to unforeseen/ hidden elements. The longer and more scattered the supply chain, the higher the risk of disruption.

A 2019 survey conducted by Deloitte revealed that over 80% of organizations had experienced a third-party incident in the last three years. Additionally, close to half of those incidents (46%) had a moderate to high business impact that included significant damage to customer service, financial losses, damage to reputation and legal complications arising from a regulatory breach.



While there was no singular reason these incidents occurred, a common underlying factor was the lack of in-depth knowledge about their supply chain. Only about 10% of the surveyed organizations reported having reasonable knowledge and awareness of their subcontractors, inducted by third-party suppliers. Further, of the 10%, only 2% reported comprehensive monitoring of all of their subcontractors.<sup>2</sup>

***This distinct lack of awareness creates a serious risk-factor that can entangle an organization's reputation as well as their future business potential.***

While the repercussions of supply chain non-compliance are pretty obvious, many organizations don't take serious actions, monitor, or audit their supply chains. Research reveals that over one-third of firms have no idea about how their suppliers are performing. The main reasons cited by the respondents include lack of technology and time, understaffing and sometimes, not feeling the need to monitor supplier performance.<sup>3</sup>

Knowing what are the risks of disruption to supply chain continuity, understanding their severity and charting out an effective risk mitigation plan is intrinsic to successful supply chain risk management. How can organizations proactively prevent risk without knowing who their contractors are, where they are located, whether they have the right documentation or if they follow the right compliance measures?

The responsibility of third-party supplier risk management essentially lies with the Chief Risk Officers (CROs) or Chief Compliance Officers (CCOs). However, a third line of defense, supplier audits, can aid in this crucial charge. Regular contractor audits help companies proactively identify risks within the supplier base. In addition, they ensure that proper internal controls are in place and timely risk intelligence is generated to drive informed decision making.



# Auditing Suppliers – Why is it Important?

In a competitive world, market reputation can either cement or debase your existence. For vendors, this is seen through winning more projects with regularity. When meticulously designed, an audit program provides a strong competitive advantage for both the suppliers and the hiring organizations.

## Improving business operations

Hiring organizations often closely monitor operators' audit results, observing whether they have the right documentation and practices in place. Undergoing an audit encourages suppliers to streamline business operations on a regular basis and improve their metrics every year. Audits help you verify on-site accident records are properly documented, sustainability and safety policies are accurately portrayed and compliance loopholes are rightly identified.



## Building safer workplaces

Workplace incidents underline the importance of vendor audits that help mitigate the risks arising from quality issues, incompetent practices and, outdated/poorly drafted policies. Audits provide organizations with leading performance indicators ensuring that organizations only work with contractors and vendors who are qualified and compliant to do a particular job.

Audits also provide contractors with an objective perspective of their credentials. Contractors are able to review operations and ensure their safety stance is easily observable. Overall, the audits serve to create a holistic environment of excellence and competence through a third-party, rigorous assessment.



## Increasing credibility

Working with unaudited vendors can often turn out to be a cost-intensive affair in the long run. Loss of business, reputation damage, legalities arising from non-regulation & penalties are just some of the risks that come with unverified contractors.

On the other hand, regular supplier audits gives visibility into the strengths and competencies while highlighting any issues or underlying negligence. It provides a fair assessment of the contractor's compliance and gives them the opportunity to adjust to meet client standards rather than just being disregarded when gaps are uncovered.

***Auditing vendors have to comply with guidelines such as the “Health and Safety at Work etc. Act 1974”, OSHA and other EHS regulations that outline the guidelines for occupational health and safety in the workplace.***

## Efficiency Delivered through Third Party Vendor Audits

A large organization is likely to employ dozens if not hundreds of contractors at work, many of them working at the same time. As such, it becomes extremely cumbersome for operators to vet each contractor on metrics like compliance and sustainability. They have to dedicate manpower, time and resources– shifting focus from key operations.

The volume of paperwork, time and effort involved serves as a prime deterrent to process completion and leaves scopes of documentation errors as well. All these factors come together to make the process of self-auditing contractors a downright counterproductive endeavor for many organizations. This where third-party audits can help.

With Avetta hiring organizations have complete visibility on how their contractors execute critical compliance procedures and the steps they take to prevent future incidents. The audits help hiring organizations ensure their drafted policies and procedures are reviewed and put to practice by all contractors and subcontractors.

**Avetta's inventory of supplier auditing services include:**

### Paper Audits

01

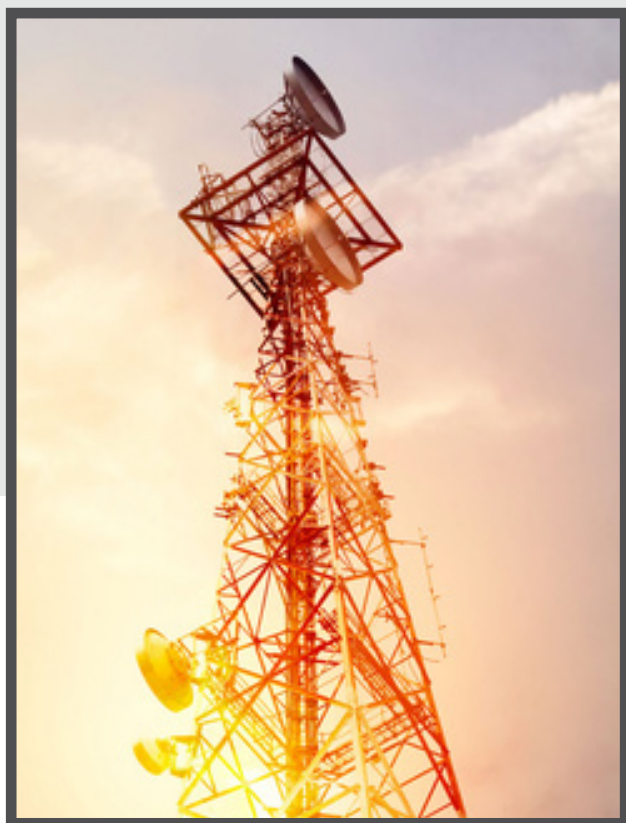
As a part of every vendor agreement with Avetta, a detailed check of compliance documentation is carried out.

02

This is the first step in the vetting process and it highlights basic compliance standards required by the hiring organization.

03

Avetta reviews each vendor document in behalf of the hiring client. Clients are then able to see in one easy glance which suppliers have up to date and accurate documentation based on a simple color code. Avetta also assists vendors with missing process documentation in the case of any gaps.



## CASE STUDY

**Client** – SBA Communications

**Industry**– Telecommunications

**Profile:**

- Founded in 1989
- Based in Boca Raton, FL
- Leading independent owner and operator of wireless communications infrastructure across North, Central, and South America

**Challenges:**

- Ensure 2,500 contractors meet all safety and insurance requirements
- Gain instant access to contractor information when issues arise on the worksite
- Proactively alert contractors of urgent issues and safety updates

**Solutions:**

- Supplier Audits
- Supplier Prequalification
- Insurance Monitoring

Avetta's world-class auditing services helped SBA gain a first-hand view of how their contractors executed documented safety procedures. The auditing services included thorough reviews of employee manuals, training logs, and on-site implementation. The solution provided comprehensive reports with written and photographic accounts of positive safety practices, areas for improvement, and recommendations.

**Results:**

- Enabled rapid verification of safety and insurance requirements from any location
- Simplified contractor management with a web-based platform
- Allowed system-wide alerts for urgent issues, product recalls, and more

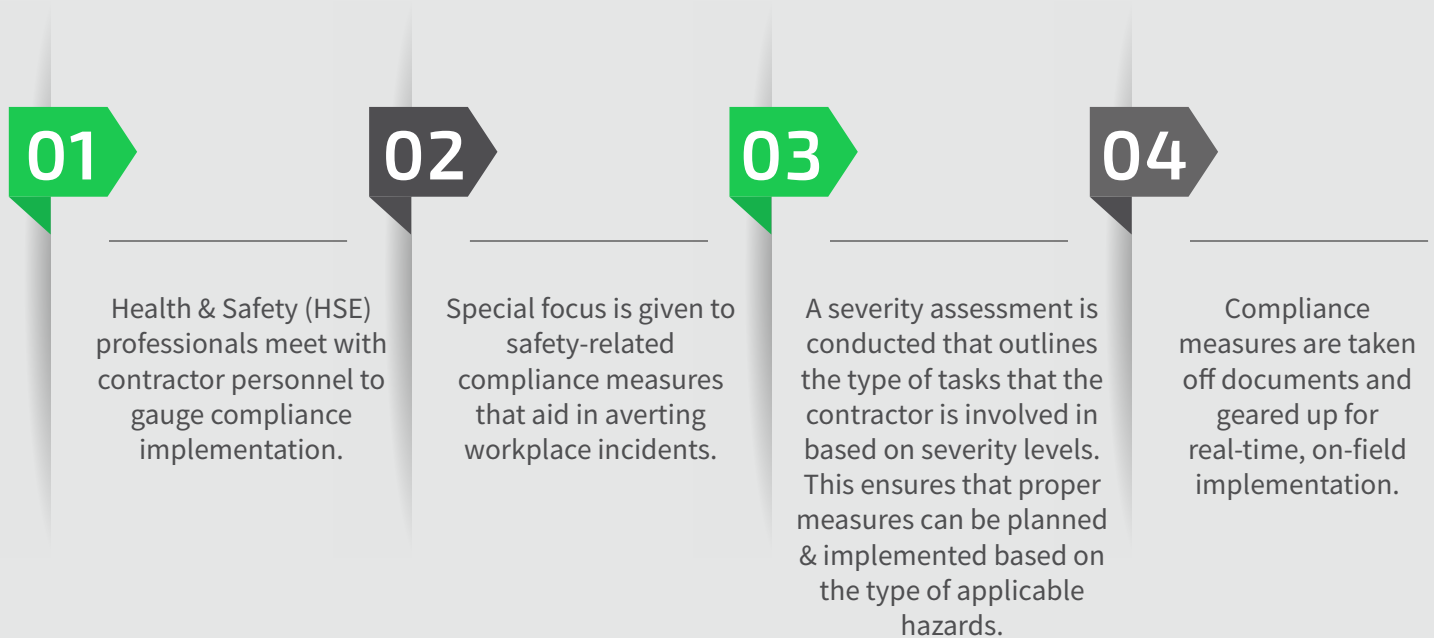


Supplier Audits really simplifies subcontractor management. Even in the field, we can review all subcontractor information, including their safety manual. Avetta provides an easy-to-understand scoring system so we can determine compliance status at a glance

– **SBA Communications, Nick Wilkerson, Safety Director**



## Implementation Audit – Auditing the levels of compliance implementation at all levels



## Field Audit – A unique proposition where the Avetta HSE professionals are involved in on-field observation and auditing a vendor in action.



## USPs of Avetta Field Audits

01

With a wealth of experienced HSE professionals, Avetta uniquely offers this solution related to on-field expertise.

02

Audits results are stored securely in complete accordance with contractual confidentiality.

03

Integrated platform for analytics provide real-time audit data to the organization which can be shared with the contractors for further fine-tuning of their safety-compliance procedure.


04

Helps organizations meet Process Safety Management (PSM) standards as per OSHA guidelines





**Sustainability Audit** – Future-proofing the contractor’s operational makeup through advanced risk assessment and mitigation procedures.



Insights gathered through analytics are leveraged to assess the risks involved in future endeavors.

Safety checks are put in place beforehand to ensure risks are minimized

Compliances and safety regulations are met with ease

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## The Takeaway

A company’s reputation largely depends on its suppliers and the approach they take towards upholding safety, sustainability, and compliance within their practices. Supplier audits are undeniably the best way to infuse accountability into supply chains while quantifying supply chain performance on a regular basis. When done right, audits can serve as a catalyst– driving positive and sustainable transformation across global supply chains. They do not fix all issues, but they assist in objectively identifying risks and fostering communication between suppliers and hiring organizations.

Going forward, as more stringent regulations and compliance requirements come to the fore, audits will no longer be an optional proposition. Rather, organizations will have to put sufficient emphasis on auditing solutions to close the gaps in supplier operation and management.

## REFERENCES

<sup>1</sup>Source: <https://www.cbc.ca/news/canada/toronto/radiohead-toronto-stage-collapse-public-apology-call-1.5347786>

<sup>2</sup>Source: Eight in 10 firms experience supplier failure;

<https://www.cips.org/en-SG/supply-management/news/2019/june/organisations-are-feeling-the-impact-of-third-party-supplier-failure/>

<sup>3</sup>Source: : Supply Chain Statistics, Top 10 Shocking Figures;

<https://jigsawbusinessgroup.com/top-10-supply-statistics/>



### About Avetta

Avetta connects leading global organizations with more than **95,000** qualified suppliers, contractors, and vendors across 100+ countries. We support the sustainable growth of supply chains through our trusted contractor prequalification, supplier audits, insurance monitoring, robust analytics and more. With real results in helping companies reduce TRIR, our highly configurable solutions elevate safety and sustainability in workplaces around the world—helping workers get home to their families each night.