

# INTERNAL AUDITS bluegrace | whitepaper

a step-by-step guide to doing an internal audit of your supply chain

# A Step-by-Step Guide to Doing an Internal Audit of Your Supply Chain

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## Introduction

While all facets of the modern business are important, arguably the most important to any retail, manufacturing, or goods based service is their supply chain.

The supply chain serves as the backbone of these companies and has a significant impact on the company's business strategy which directly affects its operation and operational costs.

Additionally, the performance of the supply chain has a direct impact on a company's ability to provide services to their customers and create additional value via services offered or simply through reliability.

With the multitude of changes that have been occurring within the logistics, trade, and freight industries now, more than ever, is an opportune time to conduct or review the process of internal audit of your supply chain.

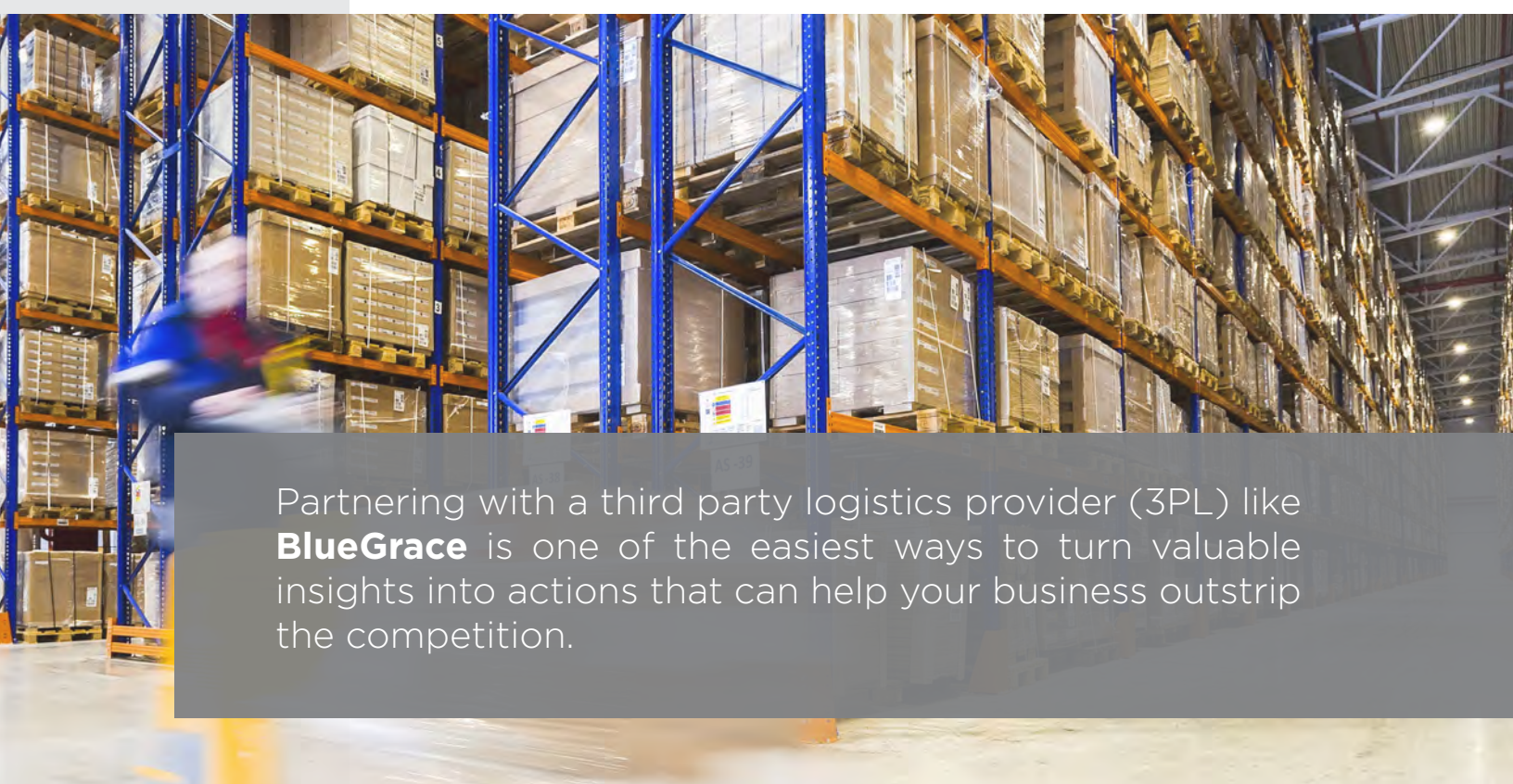
The supply chain serves as the backbone of these companies and has a significant impact on the company's business strategy

## AN INTERNAL SUPPLY CHAIN AUDIT IS ONE OF THE MOST POWERFUL METHODS OF IMPROVING

An internal supply chain audit is one of the most powerful methods of evaluating and possibly improving your supply chain, reduce operations costs, and increase competitive advantages.

The goal of the internal audit is to help you find weaknesses within your supply chain and correct pain points, bottlenecks to increase supply chain flexibility, agility, and overall efficiency.

To make the most out of your audit and its results, it's important to understand that the supply chain isn't a stand-alone, isolated feature of your business.



Partnering with a third party logistics provider (3PL) like **BlueGrace** is one of the easiest ways to turn valuable insights into actions that can help your business outstrip the competition.





01

Internal  
Audits:  
Are They  
Necessary?

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## Why An Internal Audit is Necessary For Your Supply Chain

For most companies, audits are typically part of the normal routine, either for financial records or for physical inventory. **The entire purpose behind an audit is to make sure things are where they should be and that everyone is playing by the same rules.**

“Internal auditing is defined as an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations.



**IT HELPS AN ORGANIZATION TO ACCOMPLISH ITS OBJECTIVES BY BRINGING A SYSTEMATIC, DISCIPLINED APPROACH TO EVALUATE & IMPROVE THE EFFECTIVENESS OF RISK MANAGEMENT, CONTROL, AND GOVERNANCE PROCESSES,”** as defined by The Institute of Internal Auditors (IIA).

Simply put, an internal audit is a multi-step process that is a means of determining whether your current systems and operations are in compliance with your company’s predetermined operating procedures and regulations.

This is especially important when trying to maintain retail compliance, for example, with increasing customer demands like On Time; In Full (OTIF) or Must Arrive By Date (MABD).

Conducting an internal audit does more than just evaluates the supply chain, it also takes a necessary look at the interaction between other aspects of the organization such as the accounting and financial systems, practices, and procedures.



The entire purpose behind an audit is to make sure things are where they should be and that **everyone is playing by the same rules.**

For example, are your planners and purchasers communicating properly, not only with each other but with the production floor and shipping department? Are parts coming in with enough lead time that items can be manufactured and shipped according to customer requirements?

**An internal audit is important because it allows the company executives and logistics decision makers to examine the effectiveness of their business operations and controls and applications of new policies.**

Over time, establishing those best practices means a more competitive and more profitable company in the future.

A large iceberg floating in the ocean. The tip of the iceberg is visible above the water surface, while the much larger, jagged base is submerged underwater, illustrating the concept of hidden risks or internal issues.

**INTERNAL AUDITS -  
THEY'RE MORE THAN JUST  
EVALUATING SUPPLY CHAINS**



# 02

## Things To Consider Before Starting

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## Things to Consider Before You Start the Audit

Performing an audit is one thing, but knowing what areas you need to be focusing on is something else entirely. While every audit should be more or less tailored to the specific needs of an individual organization, **here is the basic framework for initiating an audit that needs to be included:**



- **Audit Planning:** Internal auditors should have a plan in place well before the actual auditing begins.
- **Examining and Evaluating Information:** Internal auditors should have a standardized criterion to compare findings against.
- **Communicating Results:** Audit should have a clear and concise method of reporting their findings.
- **Follow Up:** Internal auditors should follow up in a timely manner to ensure that appropriate actions have been taken to correct audit findings.

This framework also serves as a support system for corporate managers and allows managers of larger production systems to delegate the oversight of the audit to the internal audit department. **This is important for a few reasons:**



- **Operating Complexity:** Automated data processing has increased the levels of complexity when analyzing data, a task better suited for those who know what to look for.
- **Decentralization:** Given that supply chains are prone to be decentralized in terms of a physical location due to globalization
- **Lack of Expertise:** As the adage goes, stick to what you know. Leave those auditors in charge of the audit for the best quality audit.







# 03

## Supply Chain Structure & Internal Audit Tasks

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## Supply Chain Structure & Internal Audit Tasks

With the right framework in place for the audit to commence, let's take a look at the tasks involved for the actual audit. **Like we mentioned in the previous section, every company is different, and as a result, the needs for every individual supply chain will vary.** So while there is no hard and fast or "Use audit 'A' for Supply chain system '1' " convenient method of doing things, there are some common focal points that are applicable for just about every organization and style of the supply chain.

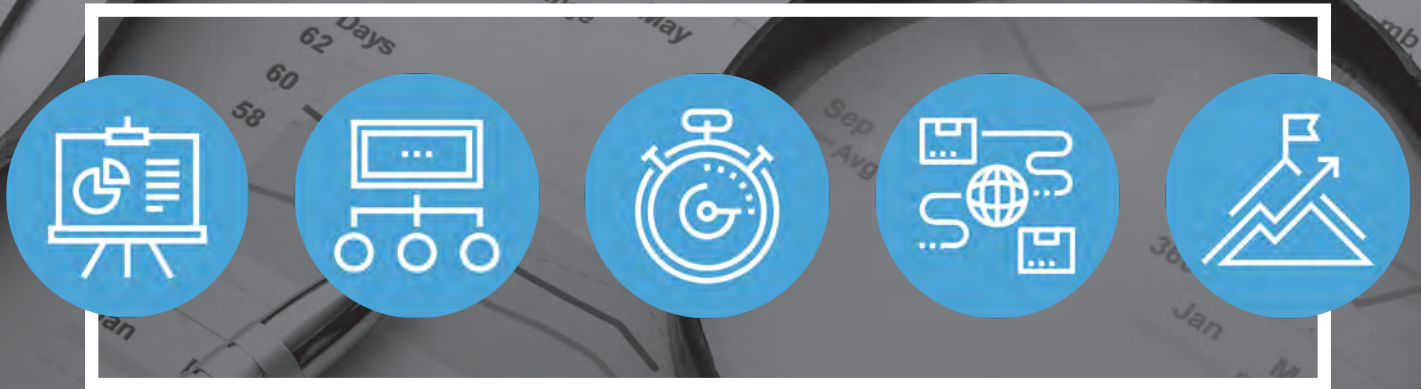


### THE SUPPLY CHAIN MANAGEMENT PROCESSES IDENTIFIED BY THE GLOBAL SUPPLY CHAIN

- Customer Relationship Management
- Supplier Relationship Management
- Customer Service Management
- Demand Management
- Order Fulfillment
- Manufacturing Flow Management
- Product Development and Commercialization

**All of these processes are hallmarks of a healthy supply chain and also indicative of the successful supply chain management.** Here again, we can see all of the links that connect the supply chain to every other facet of the business.

Another benefit to performing an internal audit is that it offers to perfect opportunity to increase the synergy between these various departments. For CFO's and supply chain leaders, this means that supply chain management deals with total business excellence and represents a new way of managing the business and relationships with vendors, suppliers, and partners.



An internal audit can help a company in finding answers to crucial questions about managing success factors of supply chain excellence, of which **these can be divided into five main sections:**

1. **Strategy** - To determine if the enterprise has a clear strategy tuned to business expectations and focused on profitably servicing customer requirements
2. **Organization** - To determine if an effective organization structure exists enabling the enterprise to work with its partners to achieve its supply chain goals
3. **Process** - To determine if the enterprise has excellent processes for implementing its strategy, embracing all plan-source-make-deliver operations
4. **Information** - To determine if the enterprise has reliable information and enabling technology to support effective supply chain planning, execution, and decision-making
5. **Performance** - To determine if the enterprise is managing supply chain performance in ways that will increase the bottom line, cash flows and shareholder returns



Performing an internal audit offers to perfect **opportunity to increase the synergy** between various departments.



# 04

## Supply Chain Risk Management

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# INTERNAL AUDITING= A FRAMEWORK TO DEVELOP RISK MANAGEMENT PROGRAMS

## Supply Chain Risk Management

As much as we wish we could, the ability to see and accurately predict the future still eludes us to this day. In the end, it all comes down to what we can optimistically refer to as an “educated guess”.

With that being said, even the most educated guesses can’t predict the weather or a broken down truck. **This means that within every supply chain, there will always be an element of risk. That risk represents any number of things that can go wrong within your supply chain and halt or delay your shipments.**

For this very reason, risk management is incredibly important when evaluating your supply chain. **Risk management is a huge proponent of supply chain health**, especially given the instabilities in the global marketplace created by political uncertainty, trade tariffs, etc.



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## YOUR SUPPLY CHAIN AUDIT CAN ALSO HELP WITH RISK REDUCTION & INCREASED SECURITY

An internal audit can provide business leaders with the necessary framework to develop an appropriate supply chain risk management program. **This is how your supply chain audit can also help with risk reduction and increased security:**



- **Review & Understand** - Reviewing and understanding supply chains, including their strengths and weaknesses, in developing markets, to validate monitoring programs
- **Develop A Monitoring Process** - Working with the company's supply chain specialists to help develop a monitoring process that can be repeated
- **Identify Critical Suppliers** - Your audit can help to identify which suppliers are critical
- **Assess Vulnerable Suppliers** - Your audit allows you to assess which suppliers may be vulnerable to threats and helping draw up a residual mitigation profile
- **Identify Risk Control Procedures** - Use findings to identify strong risk control procedures
- **Key Analytics Tools** - Helps to develop key analytic tools and techniques

**Ideally, the risk mitigation will also allow companies to increase supply chain efficiency to the point where on hand stock can be reduced.** While having excessive stock might create a buffer in time where shipments are running late or capacity is tight, that excess can also eat into company profit margins.

Additionally, having a well-running supply chain vastly lowers the chance for disruptions, operating costs, and other unexpected costs such as chargebacks, detention fees.



auditor

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## Conclusion

Supply chain management is a very complex structure of activities with cross-functional processes, and it presents one of the most important functions in the company since it is directly linked to all functions of the company.

Supply chain problems can result from any number of things including natural disasters, labor disputes, supplier bankruptcy, an act of war or terrorism, systems breakdowns, procurement failures, and other causes.

**Despite the cause, however, the results are often the same, a drastic slow down of operations and a huge impact on customer satisfaction and profitability.**

The supply chain internal audit aims to support managers in process optimization and above all in cost reduction which result from an uncertain environment by evaluating and directing management towards approaches which will prevent or reduce negative effects.

The supply chain serves as the backbone of a company and has a significant impact on the company's business strategy

After analyzing definitions and some of the standards of internal audit, it can be concluded that this process can improve effectiveness and efficiency, and by that, the performances of many functions within the organization.

High-impact supply chains are more competitive and are capable of winning market share and customer loyalty, creating shareholder value, extending the strategic capability and reach of the business. **Independent research shows that excellent supply chain management can make a significant impact in overall cost reduction.**

## INDEPENDENT RESEARCH SHOWS THAT EXCELLENT SUPPLY CHAIN MANAGEMENT CAN YIELD:



- **25-50%** reduction in total supply chain costs
- **25-60%** reduction in inventory holding
- **25-80%** increase in forecast accuracy
- **30-50%** improvement in order-fulfillment cycle time
- **20%** increase in after-tax free cash flows

**To increase supply chain strength, agility, and overall integrity, companies should develop a framework for a structured approach to ongoing risk identification and management.**

This will enable businesses to proactively address organizational supply chain risks on a periodic basis - a practice that affords stronger company and brand protection against supply chain risk gaps.





## ABOUT BLUEGRACE

Founded in 2009, BlueGrace Logistics is one of the largest third-party logistics (3PL) providers in the United States. With over 500 employees and working with over 10,000 customers to provide successful shipping solutions, the company has achieved explosive growth in its 10-year operating history. Backed by a \$255 million investment by private equity firm Warburg Pincus, the company operates 12 locations nationwide, and its headquarters are in the sunny Tampa Bay area of Florida.

*For more information, visit [www.mybluegrace.com](http://www.mybluegrace.com)*



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