Third party manufacturer operations review
The focal point…

A typical Third Party Manufacturer (TPM) operation chain can be represented as below:

Our focus is to help companies identify and address the fraud risks arising from vulnerabilities in TPM operation chain described above.

Key vulnerabilities you should watch out for

**Contract manufacturing agreement**

**Breach of key terms of contract manufacturing agreement including but not limited to:**

- unauthorised use of production assets provided by the company
- procurement from un-authorised vendors
- employment of child labour
- breach of wastage norms
- non-compliance with standard Bill Of Material (BOM) for manufacturing
- breach in quality standards set under the agreement.

**Manipulation of production records**

- Underreporting of production and diversion of production either to unauthorised sales channels or for counterfeit sales.
- Over reporting of wastages and diversion of material for parallel production meant for sales in either the grey market or counterfeit sales.
- Manipulation of quality clearance norms to indicate rejection of materials and diversion of material for parallel sales.
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Inventory management
- High levels of slow/non-moving inventory held by TPM.
- Theft/diversion of raw material/packing material/finished products held by TPM.
- Non-compliance to defacing/scraping requirements of rejects/damaged goods.
- Collusion with scrap vendors to divert damaged/scrap goods for resale/counterfeiting in unauthorised sales channels.

Bribery and corruption
Making improper payments either directly or indirectly to authorities interacting at various points with TPM for the below:
- licenses
- permits
- product testing/quality checks by certified third parties
- taxation

How we can help you
Our approach to conducting a TPM operations review is detailed below:

01 Understanding the key areas of TPM operations
- Obtain an understanding and broad overview of the existing processes, systems, controls and documentation maintained by TPM to manufacture the products of the company.
- Understand the service level requirements monitored for TPM by the company on either daily or monthly or quarterly basis.
- Obtain an understanding of the roles and responsibilities of the persons involved in the key processes at the company and TPM operations on site.

02 Data analytics
- Identify the various sources of data available for raw material, packing material, production, inventory and dispatches.
- Extract required data from identified sources and perform data analysis for:
  - input and output
  - production wastage
  - rejections/scrap generation
  - production versus dispatch
  - impact on production during breakdown/disruptions
  - slow moving/non-moving stocks
- Review production batch reconciliations, Monthly Information System (MIS) reports on a sample basis.
- Extract the required accounting transaction data but not limited to:
  - Identify key accounting ledgers for various expenses incurred by TPM covering:
    - accounts payable
    - expense ledgers linked to production and dispatches
- Perform detailed analysis on the above extracted data and identify sample transactions for detailed review.

03 Documentation review and market intelligence
- Verify supporting documentation including but not limited to production records, vendor invoices, inventory records, MIS reports, gate registers, dispatch records, stock count statements among others.
- Attempt to gather discreet market intelligence of the employees of the company/TPM, vendors, third parties and the TPM, as considered necessary.

04 Gap reporting
- Based on the red flags identified from data analysis and document testing to identify process gaps and associated fraud risks.
- For the gaps and fraud risks identified suggest practical recommendations to mitigate the fraud risks.

While this is the broad outline of our approach, it is highly customisable, and can be modified to suit the specific requirements of the client.
Potential benefits

- Identify fraud risk areas in TPM operations for the company.
- Make suitable changes to the manufacturing agreement with TPMs if required.
- Implement practical recommendations to address the control gaps in existing systems and processes.

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