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# PERSPECTIVES



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## Outsourcing Proves its Short and Long-Term Value – A Recovery Audit Perspective

Over 40 years ago the Recovery Audit industry was born, and it continues to flourish despite frequent predictions of its demise. Companies call in a Recovery Audit firm when they want to outsource the review of their transaction accuracy. Recovery Auditors often identify error rates valued at \$100 to \$3,000 per \$ million of spend – which is why this practice is referred to as Profit Recovery. Many would ask “why outsource this activity?” Surely a company can manage its own internal controls using in-house verification processes? Or after experiencing a Recovery Audit, why continue to outsource when the company can incorporate corrective actions into their processes and eliminate the sources of error? The secret of its enduring value lies in three factors – innovation, independence, and motivation. And it is for these reasons that the value of a Recovery Audit is truly realized by outsourcing.

With continued margin pressures, Profit Recovery can give clients reassurance that an innovative, independent and motivated search for hidden value and risks will be conducted.

### Innovation is the lifeblood of Profit Recovery

The ability to mine complex data is the key to the success of Profit Recovery. Since the 1970s, data mining has evolved from examining paper documents in “box audits” to the acquisition and processing of petabytes of data to the current “Big Data” solutions. Financial nuggets are found “scientifically” through advanced data mining algorithms, which enable auditors to practice the “art” of capturing exceptions and anomalies – and translating them into hard profits for their clients. While such techniques are practiced commonly, specialist auditors make it

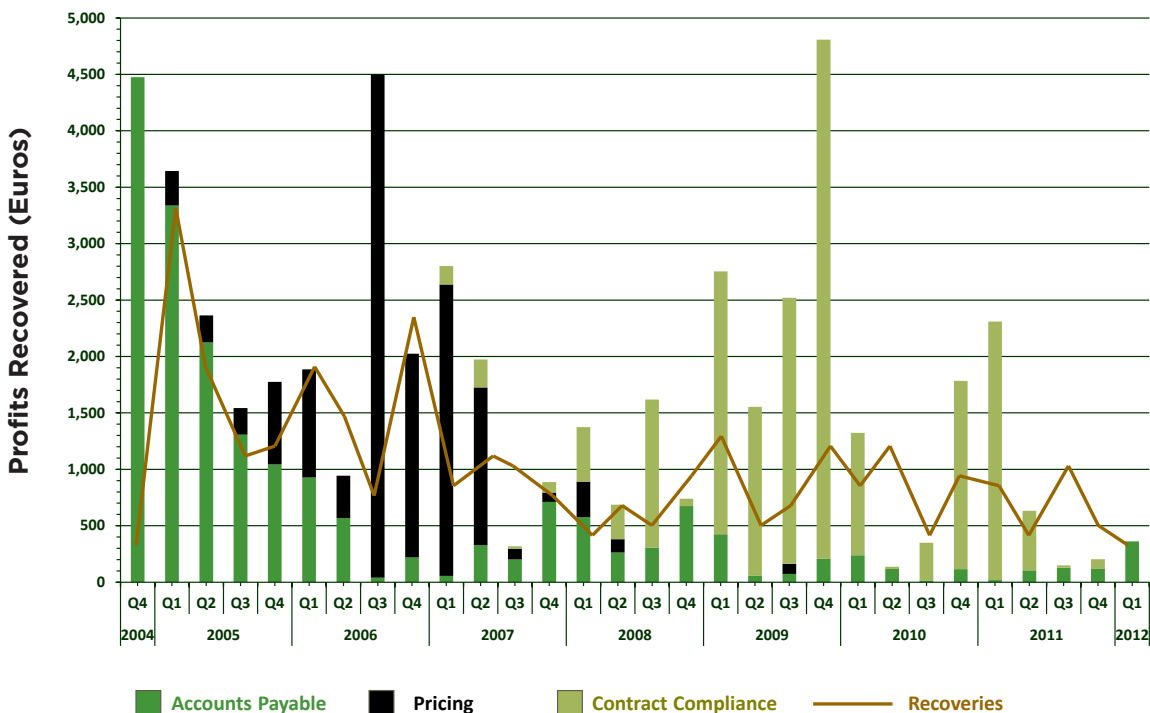
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their job to find new linkages, claim concepts or sources of data. Innovation is the lifeblood of Recovery Audit – if this were not the case, the sources of anomaly would dry up. Figure 1 illustrates profits recovered over time for a major manufacturing company that processes more than 5 million invoices per annum.

In recent years innovation has led to multiple new ways to mine data, with the most outstanding success being the proprietary techniques to trawl through tens of millions of emails and their attachments in order to find the one email which allows a company to assert and justify a claim from a vendor. Current areas of focus for innovation include root cause analysis to identify the underlying reasons for anomalies; the use of Shared Service centers in order to streamline data processing and the management of the simpler claim concepts; and the use of technology to capture data more efficiently from legacy systems. Lastly, where Recovery Audit used to stop at recommendation, now it can move to implementation with the use of external resources experienced in the Procure-to-Pay area.

**Figure 1: How Innovation Keeps New Sources of Recoveries Flowing**

Case Example: Profits Recovered over 5 Years for a Major Manufacturer with over 5 Million Invoices per Annum (Euros)



## The value from independence

External auditors are outsiders to the company, free to question without preconception. They have no proprietary interest in demonstrating the success of systems or processes. With their independence from such constraints, they search in dark corners and look for exceptions. The reality is, in large and complex data sets, there is no one single version of the truth. The auditor's job is to understand the processes that the internal team has in place, and to look for what can go wrong. In these days of saving costs and reducing controls for sampling and analytical review, this in-depth scrutiny is a rare commodity.

Independent recovery auditors can be a positive disruptive force in your organization and challenge the tendency to look at the data in one way. Once weaknesses in systems are found and the internal controls are strengthened, recovery auditors will look for new areas of exception beyond the errors to identify the sources of inefficiency. Why? Because they are motivated.

## Motivation — the last enduring force



The last enduring force which proves the value of outsourcing is motivation. It is hard to conceive that any internal audit team can have the same motivation as a Recovery Audit firm. With a contingency or hybrid model of invoicing which rewards success, and internal incentives to match, the model is built to find the hidden sources of error. As a result of this motivation, clients have benefited in ways they would not have

without outsourced support. The Recovery Audit industry, driven to provide greater value, has accelerated the speed of capturing benefits over the last 10 years. The average delay between the original transaction and its correction used to be 2-3 years. Now it is typical for Recovery Auditors to work close to the transaction — putting pressure on internal teams to correct errors in a timely fashion, feeding process improvements and accelerating the receipt of cash. Motivation is needed to overcome the monotony which naturally exists when looking for the needle in the haystack. But ask Recovery Auditors if they find it monotonous and you will be amazed at their response — the answer, confirmed by low employee turnover rates, would be a resounding no!

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The future of Profit Recovery — and by extension, Outsourcing Recovery Audit — is bright. Data volumes continue to grow, contract terms and conditions continue to evolve, and IT departments are not always focused on Finance and Procurement as a priority. Not only will there continue to be an immediate benefit to Profit Recovery, but innovation in the industry is leading to the identification of additional hidden profits uncovered by data mining — most notably in working capital optimization, spend analysis and fraud detection. And with continued margin pressures, Profit Recovery can give clients reassurance that an innovative, fully independent and motivated search for hidden value and risks will be conducted.

For more information on how PRGX can help you, contact: [info@prgx.com](mailto:info@prgx.com)

## About PRGX Global, Inc.

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Headquartered in Atlanta, Georgia, PRGX Global, Inc. is the world's leading provider of recovery audit services. With approximately 1,600 employees, the Company operates and serves clients in more than 30 countries and provides its services to over 75% of the top 30 global retailers. PRGX is also pioneering Profit Discovery™, a unique combination of audit, analytics and advisory services that improves client financial performance. For additional information, please visit PRGX at [www.prgx.com](http://www.prgx.com)

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