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supply chain risk

Are you aware of your contractor supply chain risks?

Have you quantified them and do you have capacity to continue to quantify and manage them?

What areas do you need to review to minimise or eliminate these risks?

As the use of contractors continues to grow so does the complexity of the regulations governing them. And with complexity comes risk, both financial and reputational. Most companies do not have the in-house specialism to review the constant changing landscape of new rules and regulations issued by the government and HMRC and are therefore unaware of the financial risks they are potentially facing.

In this article we look at a few of the areas to consider when assessing supply chain risk.

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contractor's audit

The starting point is to undertake an audit of all your contractors and understand how they are engaged, by whom in the supply chain and how they are paid with particular reference to employment status, tax deductions and reporting. The longer the supply chain the harder it is to achieve an accurate audit.

As well as giving you useful information on your contractor spend the audit will also identify those contractors who are not being taxed appropriately. Off payroll working legislation tackles false self-employment where a contractor is paid gross without any deduction of PAYE tax but in reality, the contractor is not self-employed and is a deemed employee. The legislation is somewhat complex however HMRC want you, the hirer, to be responsible for deciding whether a contractor is self-employed or not (outside or inside IR35 legislation respectfully) and therefore it is your responsibility to ensure they are taxed appropriately even if the contractual engagement is somewhere further down your supply chain. There are a number of scenarios in which HMRC can recoup the lost tax, national insurance, penalties and interest from you, the hirer. For a contractor earning £100,000 per annum the lost tax, national insurance, penalties and interest could easily be another £100,000 over a three-year period.

Prior to the off-payroll working legislation, HMRC would have to audit contractors and suppliers individually making it a very fragmented approach. However, HMRC's compliance in this area has now been stepped up as it is very easy for them to approach a hirer to undertake a risk assessment and ask for their contractor details as described above and audit all contractors in one review for tax compliance anywhere in the supply chain. Given the specialism of contractor compliance and the often long supply chains, most companies do not have this information to hand and are unaware of all the risks.

The longer your supply chain the harder it is to audit and verify these tax deductions. Often the supplier who is engaging the workers is a company not known to you. They may not be deducting the correct amount of tax or worse they are making payments offshore. HMRC are known to be using the Criminal Finance Act to help drive out bad practise. A very simple solution is to have all your contractors employed or paid by one entity such that all contractor compliance is in one area. This supplier can then ensure compliance in close partnership with yourselves.





complex tax legislations

There are many other elements of tax legislation surrounding contractors which again have far-reaching consequences against you the hirer and in certain instances, your company directors can be personally liable.

Besides tax risk, there is also employment risk. Again it is important to understand how those companies in your supply chain are engaging your contractors. Are they the employer of record or not? Do you have evidence to support the answer? The importance of this is when you have an employment claim from a contractor you do not want to be liable for claims that should be the responsibility of the employer. Again the longer the supply chain the harder it is for you to verify who the employer is on an ongoing basis.

One supplier in partnership with you should be the employer who can give you regular audit updates to give you peace of mind.

background screening

Having a contractor working for you who has not been properly background checked is a security risk. You may be operating in a market which requires elevated security checks but in either instance you want to be sure that all appropriate checks have been carried out on an individual before they start working for you. These may be basic identity and right to work checks through to social media checks, criminal record checks and enhanced security checks. Again, with these checks being undertaken by your supply chain how can you be sure that they are being carried out appropriately, on a uniform basis across all suppliers and how can you appropriately audit them?

Having one supplier accountable for undertaking all your background checks will give you complete peace of mind.





timesheet management & billing

Another area to review is timesheet management and billing. There are multiple ways to provide and process timesheets which then get translated into billings. There is often not one timesheet authorisation process which is followed by hiring managers meaning there is inconsistency in time management authorisation. This inconsistency will flow into the billings creating errors and potentially over-payments by you.

When you are receiving a multitude of invoices from your supply chain are you sure that the invoices are correct and that you have not paid them before. It sounds simple but in reality it's actually very hard to answer these two questions with complete confidence on an ongoing basis. The solution is to introduce an agreed timesheet processing and authorisation process for all hiring managers and contractors to follow and to initiate a self-billing procedure. Under the self-billing procedure you are in control of the billings by issuing your own self-bill invoices down to your suppliers. In this scenario, you do not receive any invoices from your suppliers and you can be assured that the time authorised is accurate and therefore the billings are accurate and that you do not pay for the same contractor time more than once. Suppliers like self-billing because they avoid cost, admin, and reconciliations. A win-win.

financial security of supply chain

How often do you check the financial security of companies in your supply chain? Do you know who the ultimate supplier is that is engaging and paying your contractors? It is important to regularly check the financial security of your supply chain. You do not want to be in the position whereby a supplier has financial difficulties and does not pay your contractors even though you have paid out funds. The longer the supply chain the greater your financial and reputational risk here.





multiple margins

Finally, when you have a long supply chain it means that there are multiple margins that are taken from the original rate you agreed to pay. This means one of two things or both – the contractor will automatically lose income and/or you have to re-hire and ultimately pay more to compensate for all the margins being taken so that you get the right calibre of worker to fulfil the role at their market pay rate.

We hope this article has provided some food for thought in terms of your contractor supply chain risk. The conclusion is clear. With a number of suppliers in the supply chain compliance audit and verification is very difficult. Having a specialist managed service provider who can provide a software and managed services platform including the management of these compliance risks will give you complete peace of mind. Ideally, this party should indemnify you against the risks.

about giant precision

Our flexible proprietary software and managed services platform, **giant precision**, can manage contractors throughout their life cycle, from candidate attraction, screening and on boarding to timesheet management, billing, employer of record, payroll and payments. In the UK and internationally.

Unlike most MSP's, our **giant precision** platform allows organisations with any number of contractors to benefit from a speedy implementation at no cost. So, if you have 5 or more contractors, we can help. We take compliance with the complex regulations governing contractors very seriously. To underline our compliance commitment to you, we contractually indemnify you against any tax and employment risk when we manage your contractors.

And we are independent. Unlike others we do not provide agency recruiting services and we have no affiliated companies that do either. Our neutrality ensures we advise you only, on what's best for you and your contractors.

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