WHITE PAPER

Payment Recovery Audit
– Strengthening Accounts Payable Process

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Abstract

Each year, enterprises lose millions through vendor overpayments arising from duplicate payments, open credits, unnecessary VAT, forgotten escrow, imbalanced contract and other errors. This is recoverable and/or possible to avoid with a thorough and consistent recovery program. Such recovery programs, if implemented correctly, can not only recover hard cash adding to the top line, but also identify ways and means to plug loopholes in the pay process and prevent leakages in the future.. In fact, a well laid-out recovery program is self-sustaining and provides a quick pay back.

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Have a sound pay process? Think again!

In today's dynamic environment, enterprises are all the time undergoing changes due to mergers, acquisitions, technological shifts, expansion to new territories or geographies, and more. These act as catalysts for process change infusing a breakdown of controls and causing errors.

Till date, in most enterprises, recovery related efforts are limited in scope. This means:

1. They do not look at the end-to-end procure-to-pay process and identify potential wrong payment that may have happened.

2. They are focused on one particular set of activities and data which does not give optimum results.

3. They are done by external vendors who only skim the top layer of the data and get a share of the recovery, taking as much as 50%.

4. In most cases, they do not adequately focus on the lost revenue and consider this as recoverable money.

What can be done?

Look at your end to end source-to-pay process to strengthen it and ensure that it does not allow any erroneous payments while recovering erroneous payments from the past.

A look at the end-to-end procure-to-pay process as shown below clearly indicates that the recovery process should focus on both pre-pay and post-pay activities and put adequate controls in place to avoid erroneous payments.
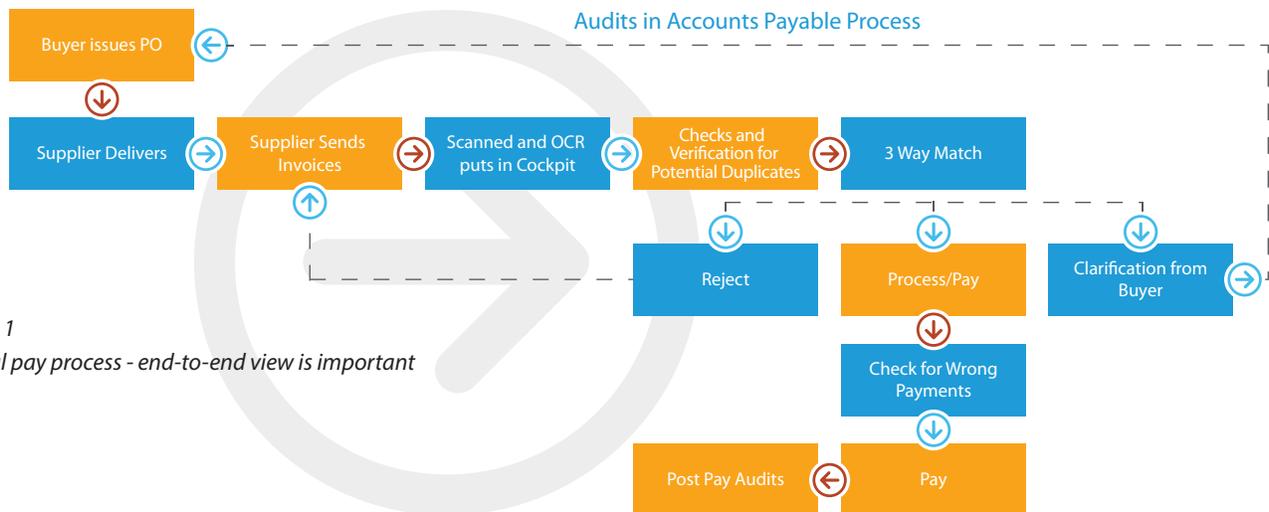

Figure 1
Typical pay process - end-to-end view is important

Proactive controls. Reactive contingency audits.

An error reduction process which focuses only on individual activities will overlook the end-to-end process outcomes. It is important that there are adequate controls in place in the process both before and after the payment is made. Best processes have both proactive controls and reactive recoveries.

Proactive controls

Though SAP has a capability of identifying duplicates within, it is limited. Limitations in detecting duplicate invoices are due to:

- Use of strict logic, no fuzzy logic
- Inability to detect cross company transactions

- Inability to detect typos

There are other typical causes such as:

- Possibility of duplicate service entry sheets
- Invoice numbering complications
- Duplicate vendors
- Urgent manual payments

To ensure robustness, process owners should create algorithms and logic beyond the SAP application. Use of analytics and relevant data analysis tools which incorporates more parameters than the standard SAP application for identifying potential errors adds more controls. These additional parameters take care of additional scenarios of erroneous payments.

Reactive contingency audits

Once the erroneous payment is made, quite obviously, it can only be recovered when identified. In most cases, these payments are unnoticed. To identify them, it is important to build the algorithm which can search the data base to unearth such potential erroneous payments and then dig deep to identify the recoverable money from suppliers.

Recover lost dollars. Improve payment process.

Contingency audit is the process by which lost dollars from erroneous overpayments and insufficient deductions are recovered while improving future payment performance. It closely scrutinizes

disbursement transactions to identify and recover money lost due to errors in the source–to-pay cycle.

The audit identifies potential problems such as:

- Overpayments and duplicate payments
- Unclaimed checks and paid credit memos

- Incorrect vendor account
- Improperly applied taxes
- Expense management audit
- Missed cash discounts
- Payment of goods / services not received
- Contract compliance issues
- Pricing and currency errors

Simple process. Big results.

Recovery audit follows four simple steps - data collection, audit analysis, recovery, and proactive suggestions for process improvement to ensure controls, compliance and prevent further loss:

Data Gathering & Process Understanding	Auditing	Recovery	Process Transformation
• Understand the procurement & Pay process • Identify and gather required data • Apply tool to identify suspicious transactions	• Diagnostics and audit analytics • Substantive testing with supportive documents • Report findings • Approval from stakeholders (AP, tax specialist, Businesses)	• Recover approved and outstanding claims • Client report out	• Share Recommendations • Suggest improvement areas

If the recovery audit is managed by a third-party vendor, it should be done under strict confidentiality as it requires sharing of large amounts of information regarding the entire source-to-pay process.

Focus on recoveries. Add to your bottom-line.

Enterprises focus on the processes and invest a lot of resources to make them robust. However, by focusing on optimizing the investment in proactive process robustness and reactive process recoveries to:

- Add to the bottom line as it is straight additional cash available in the year
- Establish a review cycle for all spend, resulting in prevention and recovery
- Reduce future losses through improved processes
- Improve controls in the upstream process in the payment chain

A robust procure-to-pay process and a strong contingency audit process will prevent loss of money due to wrong payments and payment errors. This money is hidden cash and any investment in recovering this money will have a very high rate of return.

About the Authors

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Mod Prakash has 17 years of working in different industry in managing various business processes. He currently manages client relationships for manufacturing clients in Australia and New Zealand region for Infosys BPO. Mod has been closely associated with clients who have their Accounts Payables processed through Infosys BPO.

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