



Analysis

Preventing Fraud in Accounts Payable – How Technology Can Help

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Biography

Stewart Wright is Founder and Director of YourDMS Ltd (<https://www.yourdms.net>), and has over 25 years in the Document and Data Management industry offering extensive senior management experience, delivering high-quality products and services.

Working with companies such as Invu, Abbyy, Sisense, Cumulus Pro, Draycir, Microsoft and Fujitsu to deliver business-critical software and solutions to organizations from 3 to 3000 users, YourDMS provides tailored, efficient document management, process management, and business intelligence solutions to companies seeking to reduce costs by improving their data capture, data analysis and reporting, workflows, accounts payable processing, and email management.

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Abstract

Fraud within the Accounts Payable department is more common than most businesses think, explains the author of this article. With an estimated 5% of every company's annual revenue lost each year due to fraudulent activities¹), a loss of revenue is not the only problem businesses face. Dealing with incidents of fraud is often distressing and damaging for the whole business.

Introduction

Research by University of Portsmouth Centre for Counter Fraud Studies, shows that fraud is now costing UK businesses and individuals more than £137 billion a year². Often seen as one of the great unreduced business costs organizations have either denied that they had any fraud or planned only to react after fraud has taken place. The economic crisis caused by the pandemic has seen a rise in fraudulent invoices being submitted by under pressure suppliers for goods and services which either haven't ever been ordered or have never been delivered.

Accounts Payable fraud can take many forms including paying fraudulent invoices, fraudulent expense reimbursements and paying duplicate payments. In the



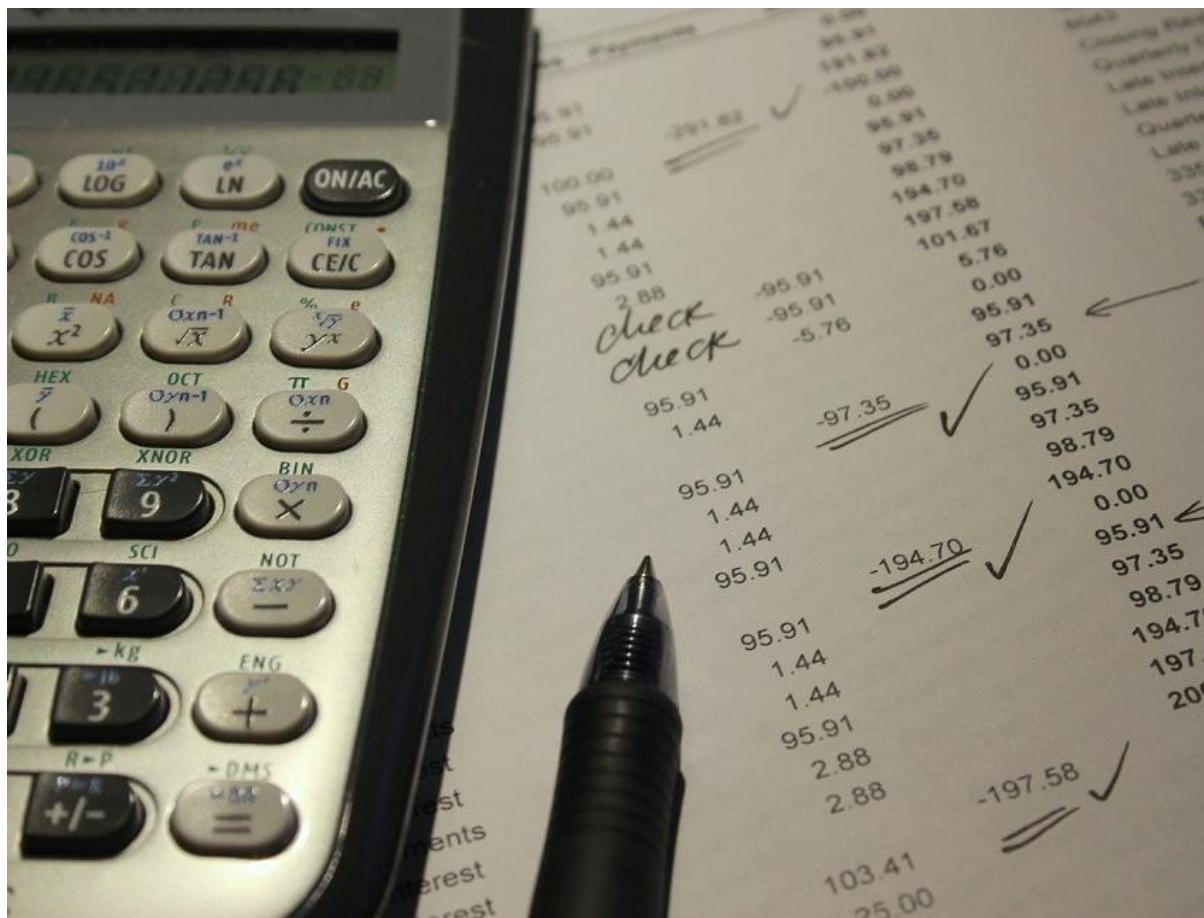
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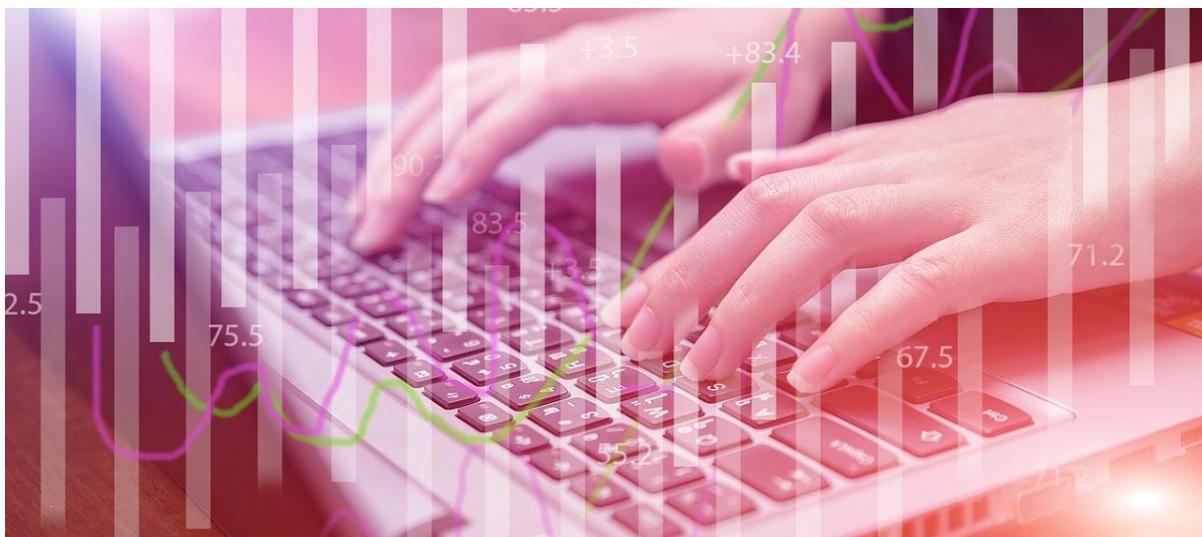
majority of reported cases, a lack of internal controls has been cited as the main challenge to preventing fraud, making it essential to monitor and pay attention to the details such as verifying supplier information, cross-checking with purchase orders and delivery notes, and apply consistent controls across the board. However, this can be difficult, if not impossible to achieve with manual processes.

It is also important to keep in mind that fraud can be an internal issue as well as an external one. Your employees know your systems and processes, which means that they also know where to find the weak points. It may be hard to imagine a loyal employee committing fraud, but UK businesses lose approximately £76 million to employee fraud³, and with more than 800 incidents of fraud reported from inside an organization, almost half (47%) of these incidents were uncovered by internal controls and company auditing⁴.

Modern accounts teams are under pressure to be more productive while cutting costs and often lack the time to complete the necessary checks to ensure that fraudulent payments and activities are discovered and stopped.

The good news is that there are several ways in which the right Accounts Payable software can give the accounts payable team the tools to take back control and prevent fraud within their organization.





Automated invoice checking and verification

Using an automated solution⁵ allows the accounts team to capture all invoices into the system regardless of whether they are paper (via a scanner) or digital (via email). Data is automatically extracted from the invoices (including PO references) and enables the AP clerk to add any missing information or correct any data errors. PDF's of the invoices are then saved to your in-house system(s) ready to undergo a three-way matching process.

When an invoice matches the received amount from an order, and the invoice is fully accounted for and authorized, it is posted to the in-house finance system without any human intervention. Invoices can be paid promptly, often resulting in supplier discounts. Improving purchase invoice and order checking and verification makes duplications and errors much easier to detect. All these processes work outside of your financial systems, therefore preventing any incorrect or duplicated invoices from ever reaching the payment runs.

Automated expense management

The National Fraud Authority estimates that companies lose over £100 million each year due to travel and subsistence fraud in the form of inflated or falsified expense claims.

Using an automated solution and app⁶ to manage Expense Claims can make things easier to ensure that employees are not submitting fraudulent expense claims. An Expenses solution is set up with pre-defined categories and maximum claim amounts that are determined by your company expense policy. This means that when a claimant submits their claim, they must pick an expense type from a set choice of categories, they can't add their own.

Mileage rates can also be preset to ensure that employees are claiming the correct amount. Maximum limits can be set for specific expense types such as travel or subsistence, with claims that don't comply being flagged up and referred to a manager or approver for further investigation.



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Another important feature is the ability to set roles for users, which means that a claimant cannot sign off their own claims. Only managers or approvers have permission to sign off claims for their team.

An automated solution also gives visibility of the whole process by generating an audit trail which shows all steps in the process, who completed them and when. This not only ensures compliance in processing but is extremely useful when undertaking a review or audit.

The audit trail shows the expense claim submission and associated digital receipts, approval or rejection by the relevant manager, processing by the accounts team, files exported to other in-house systems such as a Document Management or finance system. This allows your accounts departments to review and check that all expense claims have been approved by the right manager and that your expenses policy is being followed correctly. A clear audit trail forms part of your robust internal controls in the fight against fraud.

Removing manual touchpoints

The processes described above remove many manual touchpoints including data entry and manual checking of invoice and expense data. Automated solutions integrate with your existing in-house systems and by saving and posting documents and data directly into the right storage location automatically, they also remove duplication of data entry into multiple systems, which in turn reduces the number of errors.





Invoices and expense claims that meet pre-defined business rules are automatically approved, so the Accounts team only need to deal with the exceptions, which not only frees up their time but also leaves them with fewer opportunities to tamper with invoice or expense data and payments.



Improving visibility

End-to-end transparency of your entire invoice and expense claims processes is key to driving out fraudulent payments and activities. With an automated system, you can see the status of an invoice /expense claim and where it is in the process, which member of your team is working on what, who has or needs to approve it etc. This also helps to provide a clear up-to-date picture of your financial obligations. Managing this manually means visibility is often non-existent and if a supplier or employee wants an update on their payment or reimbursement, it's almost impossible to give them one quickly and easily.

Easier statement reconciliation

Before month-end, the accounts team must verify that the total of all outstanding accounts payable amounts match the payables account balance recorded in the general ledger to ensure that everything balances and the books are correct.

Trying to reconcile statements manually extremely inefficient and therefore costly in terms of time and resources. According to a survey by EY, up to 59% of a financial department's resources are spent on managing transaction-intensive processes.



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And around 95% of this time is spent checking transactions that already match, instead of dealing with the problem entries that require attention impacting the team's efficiency⁷.

When using and integrating the right combination of Accounts Payable software, for example, Data Capture⁸, Automated Invoice Processing⁹, and Document Management¹⁰, the data in the database or finance system is correct (fact!). At the end of the month, all invoices need to be accounted for, and this is where only missing or problem invoices will be flagged up and dealt with. All other invoices have already been processed, saved in the system, paid and accounted for. By having these systems and controls in place, an organization should never be overcharged.



Audit trails and secure storage

Integrating an automated solution with a Document Management system (as well as your in-house finance system) to securely store a copy of all invoices, delivery notes, POs, expense receipt images etc., will add another layer of protection to your financial activities. A Document Management system has excellent search functions and all related finance documents (orders, invoices, receipts etc.) can be stored with full metadata to aid searching and linking – useful for day-to-day work, essential during an audit. This allows you to gain faster access to data and makes it much harder for documents to be lost or misfiled.



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A Document Management system also creates an audit trail so that you can see who has performed an action to what document, which is one way you can monitor what your employees are doing. The system will let you create different permissions for different users so that your team can only access the documents that they need to. All of which helps to improve compliance with industry regulations.

Relying on manual processes leaves your business vulnerable to the risk of fraud, loss of revenue and damage to your reputation. With the right controls and technology in place, businesses can be much better at detecting and preventing fraud in addition to a host of other benefits including improved accuracy and efficiency, improved compliance, paying invoices and expense claims faster, improving supplier relationships and securing prompt payment discounts. With incidents of reported fraud on the rise, can you afford not to take this seriously and equip your team with the tools and knowledge they need to protect your finances and give you peace of mind?

Reference

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- ⁵ <https://www.yourdms.net/solutions/purchase-invoice-processing/>
- ⁶ <https://www.yourdms.net/solutions/expense-claims-processing/>
- ⁷ Ernst & Young Global Limited <https://www.ey.com>
- ⁸ <https://www.yourdms.net/solutions/data-capture/>
- ⁹ <https://www.yourdms.net/solutions/purchase-invoice-processing/>
- ¹⁰ <https://www.yourdms.net/solutions/document-management/>



CHARLTON ATHLETIC FOOTBALL CLUB STREAMLINING ACCOUNTS PAYABLE

Charlton Athletic is a professional League One football club with a proud history. Founded in 1905, they've won multiple titles including the Football League First Division in 1937, and more recently Football League One in 2012. Find out how we helped them put P2P in the back of the net...

ANALYSIS

With over 300 employees Charlton were looking to achieve maximum efficiency within all areas of their business. Due to the amount of time required to enter the invoice data, along with the procedural requirements for authorisation, Charlton were looking to find efficiency gains across PO generation, invoice entry, processing and within the accounts team. It had been estimated that employees spent around 8-10 hours per week manually entering, checking and authorising purchase invoices.

The accounts team were receiving and processing approximately 500 purchase invoices per month, from an average of 100 different suppliers. The current process was very time consuming. Staff had to manually enter the required purchase invoice data into Navision (finance system), and record the relevant data against the correct vendor record before it was passed to a manager for approval. Once authorised and coded, accounts staff would double-check the details before arranging payment to the supplier.

In addition to improving their Purchase Invoice process, Charlton wanted to streamline and automate how they generated Purchase Orders, replacing the multiple forms they were currently using. The existing process was a very manual one, with handwritten orders being completed and then matched to the right invoice.

Charlton knew that with the right technology in place, they could improve their processes, increasing accuracy, freeing up employees time to focus on core tasks, and strengthening supplier relationships by paying invoices promptly. Improvements in procurement would also lead to significant savings.

Esperance Kabanya, Bookkeeper & Credit Control at Charlton Athletic FC said: "Because we were doing everything by hand, it was difficult to get invoices approved quickly and pay our suppliers on time, which was frustrating for us and them."



YourDMS SOLUTION

The solution that YourDMS recommended combined Document Management, intelligent Data Capture and Workflow, and integrated directly with the existing Navision accounting software.

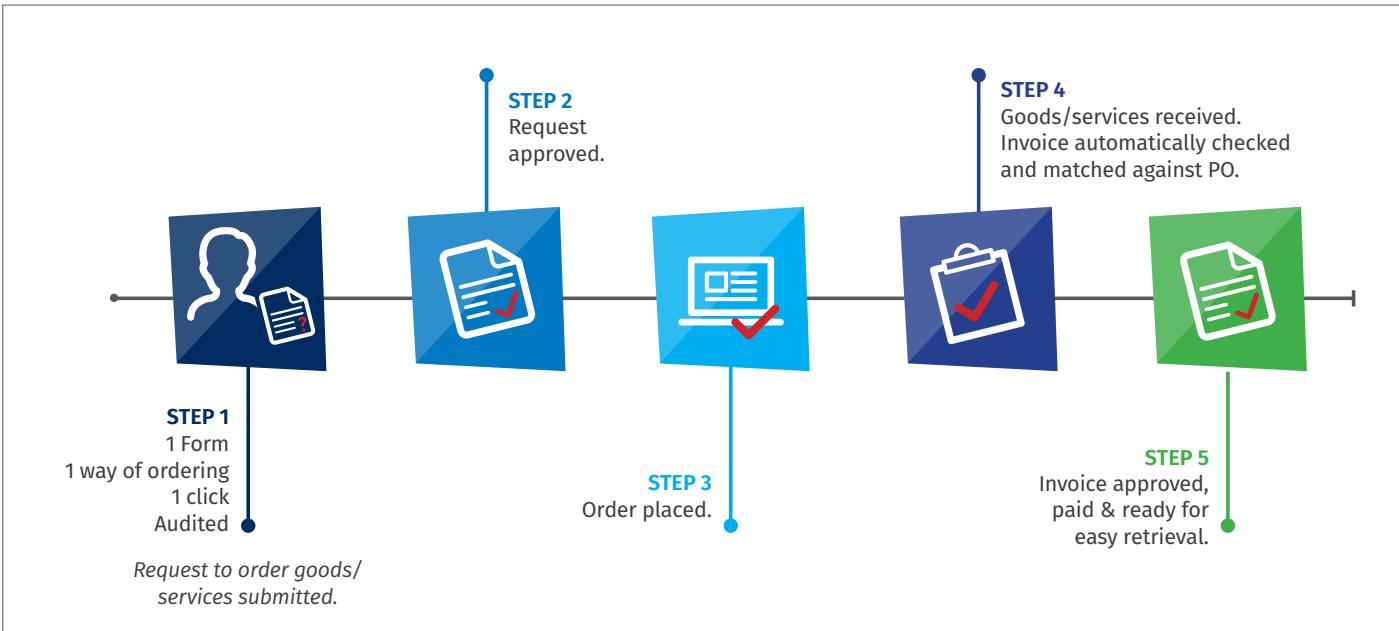
The procurement process would be streamlined using a one interactive Requisition form which would allow users from across the business to request goods and services quickly and easily.

Abbyy Flexicapture would automate the data extraction process for the 500+ invoices the accounts department were receiving every month. The relevant data would be correctly identified and extracted before being automatically posted into Navision.

An Invu Document Management system would allow all purchase orders, invoices and related documents to be stored securely, searched, retrieved and shared with ease.

YourDMS would also undertake onsite training with the accounts team to enable them to fully understand and use the new system.

The proposed solution would be flexible and scalable supporting future expansion throughout other areas of the Group.



RESULT

The introduction of an interactive requisition form has simplified the procurement process across the business. The form is pre-populated with information such as approved requesters, approved suppliers, line item coding, and calculates VAT and gross totals automatically, enabling it to be completed quickly and accurately. Once submitted, an approval workflow is triggered, extracting the purchase order number and supplier and filing electronically, and notifying managers to approve or decline a request. Once approved, users are notified so that they can place the order.

When the accounts team receive the related purchase invoice, data is automatically and quickly captured, recognised, interpreted and processed with little or no intervention. Staff only have to deal with any exceptions. Once captured, the invoices undergo a 3 way matching process. When an invoice matches the received amount from an order, and the invoice is fully accounted for and authorised, it is posted to Navision.

All orders and invoices are also stored securely in the Invu Document Management system with full metadata to aid searching, linking and retrieval. Invu creates an electronic audit trail for every document helping Charlton to meet strict compliance regulations.

The solution has already reduced the amount of time Charlton spend on manual data entry and processing by 50%. In addition to reducing admin

costs, improving accuracy and efficiency, and easing document distribution, the accounts team now have more time to focus on core business tasks.

With all order, receipting and invoicing data easily accessible, Charlton now have full visibility of all purchasing activities, helping them to gain control of their financial obligations and identify areas where they can make further savings.

Esperance explains: "The new solution is great, and removing the data entry and checking, has allowed us to be a lot more productive. And with all the documents being stored in Invu, it's easy to search and find exactly what you are looking for when you need something. It's a much better way of working."

"Since we have started using YourDMS's Invoice Processing solution, we are already saving around half of the time it used to take to process invoices. We have also reduced the time we spend on manual data entry allowing us to focus our attention on core business tasks."

CHIEF FINANCIAL OFFICER
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