



# *Accounts Payable Outsourcing*



# OVERVIEW- ACCOUNTS PAYABLE PROCESSING



The findings of a recent accounts payable study highlights the common errors and issues faced by the accounts payable department.

They also stress on the manual, inefficient and error-prone nature of most accounts payable processes. The key findings of the study are:

- ❑ Errors: The average accounts payables department has a **1.6%<sup>①</sup>** error rate
- ❑ High Cost: The average cost to process an invoice is **\$8.15<sup>②</sup>**
- ❑ Lack of Controls: Clerical staff has broad discretion on how to apply management rules around PO/receipt/invoice matching and payment and invoice authorization rules are not always followed
- ❑ Poor Visibility: Financial managers accrue outstanding payables monthly; many of the individual transactions are paper invoices sitting in manager inboxes waiting for approval that financial managers have not seen
- ❑ Poor Documentation: The paper-intensity of the process leads to difficulty in locating manually-filed invoice and check documents
- ❑ Management Time: All of the above contribute to an excessive amount of management time, attention and resources being spent on a non value-added function

# CHARACTERISTICS OF A POORLY RUN AP PROCESS

## **Payment of invoices early or post due date**

Paying invoices before time can generate cash discounts, while late payments attract penalties/late fees. This also strains vendor relationships and lowers credit limits.

## **Over payments, duplicated payments**

Overpayments are caused when someone processing the wrong payment. A common error is duplicated invoices which are paid twice, this can happen easily if suppliers send invoices in more than one way (eg. by email and post) and you pay both invoices. A good accounts payable system will be able to identify duplicate invoices and is updated in a timely manner so you can check if an invoice is paid.

## **Frequent data entry and matching errors**

Data entry errors can occur on any invoice field and accounts for most of the errors in accounts payable processing. Often, PO vs invoice matching rules are not documented resulting in inconsistent matching by specific AP staff

## **Difficult to find invoices and checks after processing**

Paper documents are difficult to locate after accounts payable processing due to filing errors and are expensive to store and locate

# COMMON ERRORS AND ITS BEST PRACTICES



## Data Entry Errors

Data entry errors can occur on any invoice field and accounts for most of the errors in accounts payable processing. According to a research report, data entry errors **average 1.6%** of the total AP transactions.

### Best Practices

- Receipt of electronic invoices (EDI, XML, etc.). Eliminates data entry entirely
- Matching to purchase orders in an automated accounting system eliminates manual entry
- Data entry by one individual and quality review by a different individual eliminates errors
- Double entry of invoices with field by field comparison eliminates almost all data entry errors



## Lack of Well-Defined and Documented PO-Receipt-Invoice Matching Business Rules

In most companies, matching business rules are not documented in writing or in complete detail and accounting systems are incapable of matching rules, automatically using all necessary forcing accounts payable staff to apply rules manually

### Best Practices

- Document all matching business rules in complete detail
- Automate application of business rules utilizing a combination of accounting systems, third-party and proprietary software solutions

## **Financial Management Does Not Know the True Picture of Outstanding Company Liabilities**



Many invoices are in manager's in-boxes or remote locations at any point in time financial management has no way of knowing the dollar value and due dates of these invoices

### **Best Practices**

- Centralize receipt of invoices at a central location and route electronically for approval using workflow technology
- Develop a report at the end of the month for financial management to accrue all outstanding liabilities accurately

## **Difficult to Find Invoices and Checks After Processing and Document Storage is Expensive**



Paper documents are difficult to locate after accounts payable processing due to filing errors and are expensive to store and locate

Many companies store the invoice, a copy of the check and purchase order together for ease of retrieval, but this is extremely expensive.

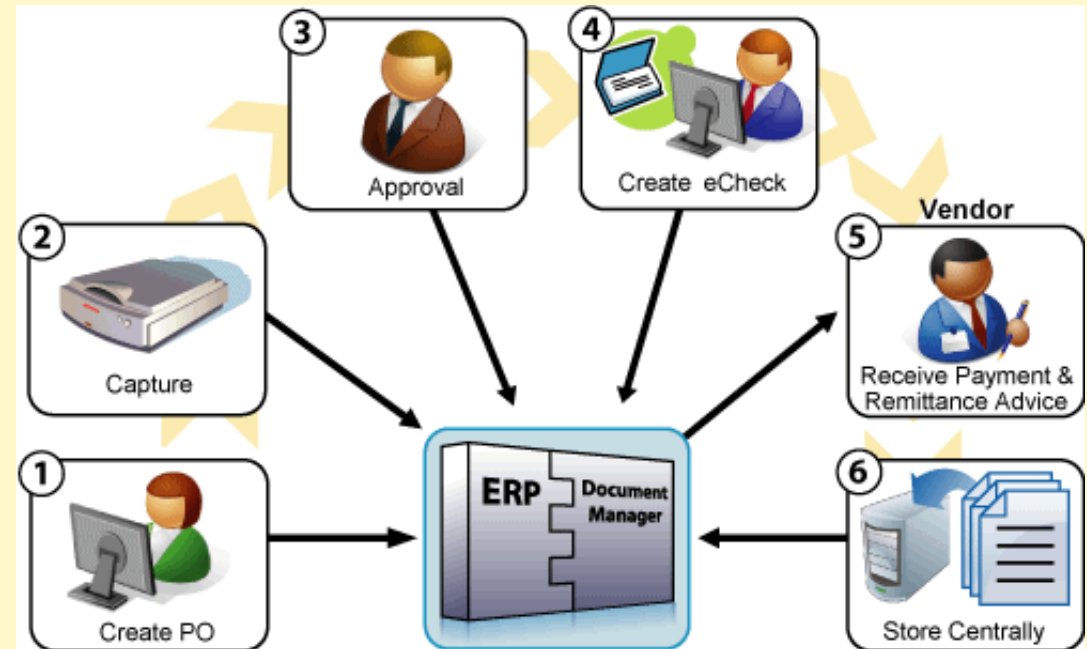
### **Best Practices**

- Utilization of imaging/document management systems integrated into accounting system
- Elimination of paper files

# DOCUMENT MANAGEMENT SYSTEM

The best way to streamline resource-intensive and error-prone processes that increase costs, create inaccuracies and decrease efficiency is to automate the accounts payable process. Document management software saves time and money by automating labor intensive business processes. When properly deployed, document management and imaging solutions can result in a better, faster and cheaper accounts payable (AP) process.

- Invoices are processed more efficiently with fewer errors
- Error reduction leads to faster validation and quicker payment approval allowing the company to take advantage of early payment discounts late or duplicate payments
- Eliminates missing and duplicate invoices that lead to missed, late or duplicate payments
- Strengthening vendor relationships
- Access of all related document images in one place. That means that everything from purchase orders to payment check images for each order and from each vendor is obtainable instantly for audit purpose

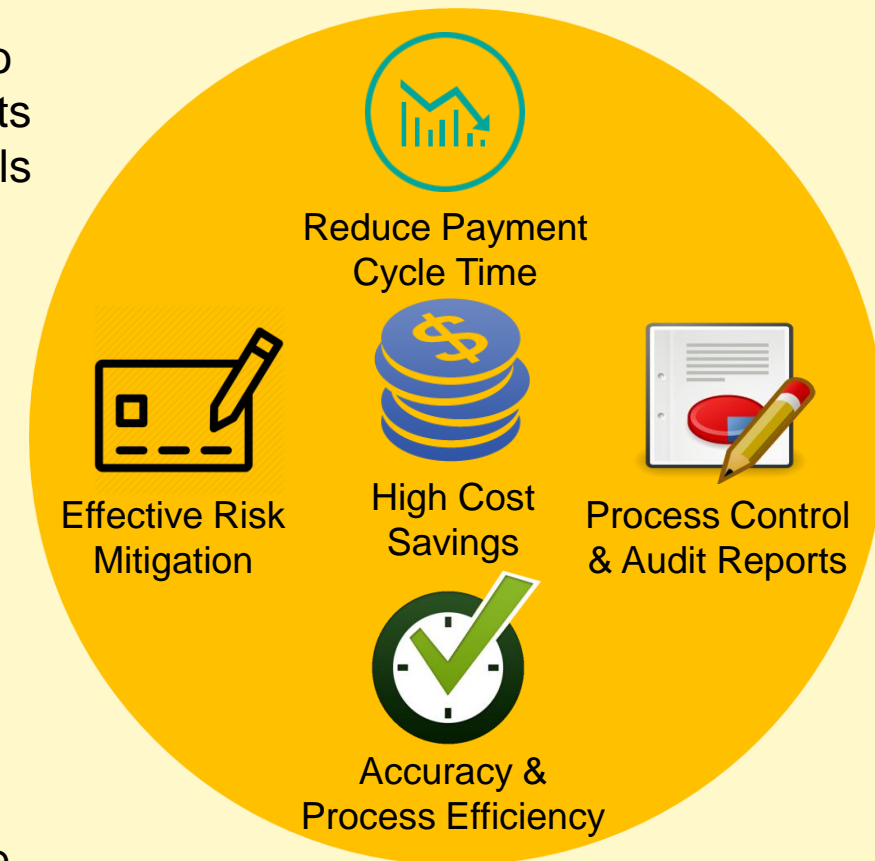


# WHY OUTSOURCE

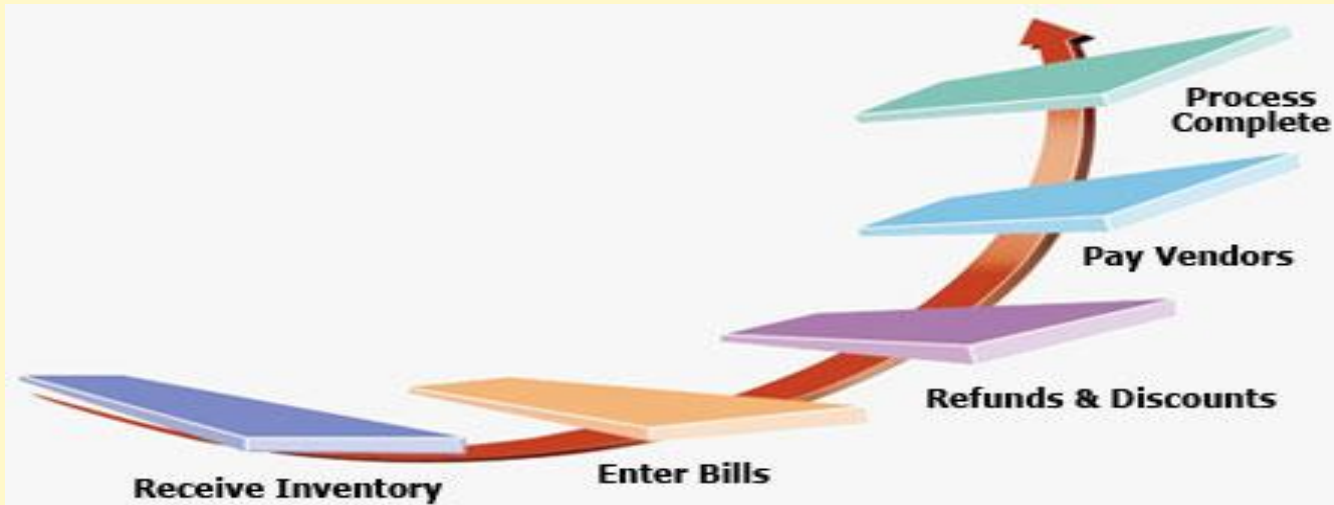
Businesses today are frequently being challenged constantly to reduce costs, to drive productivity and to improve process efficiency. Our innovative accounts payable services solutions helps customers transform their accounts payable processes into an semi-automated system , driven by business rules. This results in lower processing costs, improved controls, higher service levels and higher business intelligence.

## Key Benefits

- ❑ Lower processing costs through a combination of technology and outsourcing
- ❑ On time payment eliminates late fees and generates early payment discounts
- ❑ Complete visibility to invoice status, open invoices, paid invoices through a variety of reports
- ❑ View co-relations between checks issued & invoices that have received payment
- ❑ Systematic record of all invoices for audit purposes



# OUR SERVICES



Our accounts payable outsourcing specialists have deep experience in accounts payable and disbursement processes. We process hundreds of invoices daily across real estate, logistics, online stores, IT companies, construction companies and others

- Creation and maintenance of vendor database
- Tracking vendors and sub contractor records for ensuring compliance to workers insurance and other statutory requirements
- Accurate and fast entry of purchase invoices on the basis of supporting documentation like purchase orders, contracts, and other related documents
- Processing of utility bills in accounting software based on scanned bills and/or by accessing online utility accounts
- Ageing of payables and tracking of payables to ensure early payment discounts and/or adherence to existing payment terms
- Accurate and timely vendor reconciliation
- Issue of 1099s to vendors



# CASE STUDY



## Solution

- ❑ Team of two accountants was set-up to service the stiff service levels (same day TAT with 99% accuracy)
- ❑ Designed a migration plan that covered business, technology, process review and work-flow steps
- ❑ Two week comprehensive training program to familiarize staff with the software (Timberline) and the process
- ❑ Gradual transition from the pilot phase to the “live” phase ensured smooth scaling up

## Achievement

- ❑ Same day turnaround with 99.7% accuracy levels for a daily processing volume of 125 invoices per FTE
- ❑ Successful handling of complex invoices involving progressive invoicing and multiple tax codes
- ❑ Client has planned off-shoring of the entire AP department over the next few months

## Our Services

Accounts payable processing involving entry of invoices and generation of management reports

## Client Size

USD 300-350 million with 60 employees

## Client Profile

A well-known Canadian real estate developer based in Vancouver with proven expertise in constructing and developing high rise concrete homes



# CONTACT DETAILS

## OHI

For a customized **NO Obligation** analysis of your accounts payable process, please contact us at-

Email: [sales@outsourcinghubindia.com](mailto:sales@outsourcinghubindia.com)

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# ANNEXURE A

## COMMON ERRORS AND ITS BEST PRACTICES



Issue / Description	Best Practices
<p><b>Data entry errors</b></p> <p>Data entry errors can occur on any invoice field and account for most of the errors in accounts payable</p> <p>Data entry errors average 1.6%, a very large amount not readily measurable in most accounting departments</p>	<ul style="list-style-type: none"><li>➤ Receipt of electronic invoices (EDI, XML, etc.). Eliminates data entry entirely</li><li>➤ Matching to purchase orders in an automated accounting system eliminates the need for much data entry</li><li>➤ Data entry by one individual and quality review by a different individual eliminates almost all data entry errors</li><li>➤ Double entry of invoices with field by field , eliminates almost all data entry errors</li></ul>
<p><b>Matching errors</b></p> <p>Matching of invoices to purchase orders and receipts is complex and prone to errors business rules for matching are frequently documented or followed by clerical staff</p>	<ul style="list-style-type: none"><li>➤ Automated matching in accounting system (typically found in high-end ERP systems only)</li><li>➤ Well-documented business rules around matching (what constitutes a match, field by (field) and action to take if there is an exception</li><li>➤ Logs of exceptions by exception type, sent to purchasing department for vendor follow-up</li></ul>
<p><b>Duplicate or incorrect invoices</b></p> <p>Vendors frequently generate duplicate invoices when an invoice has not been paid in a timely manner</p>	<ul style="list-style-type: none"><li>➤ Accounting system (or individual if manual process) should check for duplicate invoices by invoice number</li><li>➤ Accounting should check that an invoice is for the correct company and business unit</li><li>➤ Duplicate or incorrect invoices should be logged so that the source of problems can be found</li></ul>

**CONTINUE**

**BACK**

Issue / Description	Best Practices
<p><b>Improper account coding</b></p> <p>Account coding is judgmental and rules for coding are not well documented or otherwise</p> <p>Established in most companies; this may lead to inconsistent coding across departments or manipulation for budgetary or other purposes</p>	<ul style="list-style-type: none"> <li>➤ Well documented business rules around coding</li> <li>➤ Review of coding by managers to ensure business rules are followed</li> <li>➤ Greater use of purchase orders eliminates need for account coding by managers</li> </ul>
<p><b>“Disappearing” invoices and unapproved invoices</b></p> <p>Invoices that come directly from the vendor to a business unit manager or location other than accounting tend to get delayed (sometimes on purpose) or lost due to the many opportunities for paper to get lost unapproved invoices (not yet received by accounting) are not known to accounting and therefore company liabilities are not truly known or reflected on the balance sheet</p>	<ul style="list-style-type: none"> <li>➤ All invoices should come in to a central location and scanned or, at a minimum, logged before being sent for approval</li> <li>➤ Logging of invoices provides the CFO with a true picture of the liabilities of the company</li> <li>➤ Invoice images should be routed electronically for approval to track invoices at each step of the process and eliminate managers “sitting” on invoices in their in box</li> </ul>
<p><b>Lack of well-defined and documented PO-Receipt-Invoice matching business rules</b></p> <p>In most companies, matching business rules are not documented in writing or in complete detail and accounting systems are incapable of matching rules, automatically using all necessary forcing accounts payable staff to apply rules manually</p>	<ul style="list-style-type: none"> <li>➤ Document all matching business rules in complete detail</li> <li>➤ Automate application of business rules utilizing a combination of accounting systems, third-party and proprietary software solutions</li> </ul>

Issue / Description	Best Practices
<p><b>Excessive use of PO-Receipt-Invoice matching tolerances</b></p> <p>Many accounts payable departments use matching tolerances to reduce the effort to resolve unmatched items, but are often set too loosely (to reduce effort), allowing dollars to be lost</p>	<ul style="list-style-type: none"> <li>➤ Low to no use of tolerances</li> <li>➤ Analysis of effort in resolving unmatched items vs. Dollars lost to determine the proper tolerance levels</li> </ul>
<p><b>Broad discretion of application of po-receipt-invoice matching and approval level business rules by accounts payable staff</b></p> <p>Apply rules manually and generally have broad discretion On how to apply business rules; few companies audit rules compliance</p>	<ul style="list-style-type: none"> <li>➤ Document all matching business rules in complete detail</li> <li>➤ Train management and accounts payable staff on business rules</li> <li>➤ Audit compliance of business rules</li> <li>➤ Return invoices without account coding or improper coding to approver/buyer for correct coding</li> <li>➤ Automate application of business rules utilizing a combination of accounting systems, third-party and proprietary software solutions</li> </ul>
<p><b>Approval of new vendors or update of key vendor information</b></p> <p>Careful controls should be placed on who can approve the establishment or revision of vendors to prevent fraud</p>	<ul style="list-style-type: none"> <li>➤ Purchasing department should approve all new vendors and changes to existing vendor records</li> </ul>

Issue / Description	Best Practices
<p><b>Financial management does not know the true picture of outstanding company liabilities</b></p> <p>Many invoices are in manager’s in boxes or remote locations at any point in time financial management has no way of knowing the dollar value and due dates of these invoices</p>	<ul style="list-style-type: none"> <li>➤ Centralize receipt of invoices at a central location and route electronically for approval using workflow technology</li> <li>➤ Develop a report at the end of the month for financial management to accrue all outstanding liabilities accurately</li> </ul>
<p><b>Managers keep invoices in their in boxes too long or misplace them</b></p> <p>Managers inadvertently or deliberately (to avoid costs hitting their cost center) do not approve or reject invoices on a timely basis or lose them; financial management has no way of knowing the dollar value and due dates of these invoices this also leads to poor credit from vendors, late charges or inability to take advantage of discounts</p>	<ul style="list-style-type: none"> <li>➤ Centralize receipt of invoices at a central location and route electronically for approval using workflow technology</li> <li>➤ Set business rules for managers to approve or reject all invoices within 2 days of receipt or less</li> </ul>
<p><b>Difficult to find invoices and checks after processing and Document storage is expensive</b></p> <p>Paper documents are difficult to locate after accounts payable processing due to filing errors and are expensive to store and locate</p> <p>Many companies store the invoice, a copy of the check and purchase order together for ease of retrieval, but this is extremely expensive.</p>	<ul style="list-style-type: none"> <li>➤ Utilization of imaging systems integrated into accounting system</li> <li>➤ Elimination of paper files</li> </ul>

**BACK**