SIX-FIGURE THREAT

THE TRUE COST OF OPERATIONAL FINANCE RISKS REVEALED

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SIX-FIGURE THREAT: THE TRUE COST OF OPERATIONAL FINANCE RISKS REVEALED

How Risks and Errors in Accounts Payable Processing Threaten Your Organization's Working Capital And Strategic Objectives

QUICK READ

Underestimating the full cost of errors, inefficient processes and other risks to operational finance leaves organizations exposed to financial loss if other cost saving projects take priority.

This report helps finance leaders understand the total impact of fraud, errors and process inefficiencies within their accounts payable function, and introduces a proven, preventative approach that typically achieves a 5-10x return on investment.

The total cost of incorrect payments and inefficient accounts payable processing far exceeds the face value of the invoices involved. The knock-on effects from the seemingly small fraud, risk, inefficiencies and compliance issues compound to be of concern to every level of the finance function.

When organizations make duplicate payments, they leave the door open to other risks and fraud, leading to financial loss, a reduction in the organization's available working capital, and reputational risk.

Good governance demands that organizations protect themselves and their stakeholders from risk. However, a lack of clarity into the scale and impact of operational finance risks prevents them from doing so effectively.

To solve this, finance managers must first recognize the full scope of the risks. Only then can they utilize cutting-edge tools and techniques to minimize these risks and provide the level of assurance required by the board.

80% OF ORGANIZATIONS RELY ON EXTERNAL AUDITS OF THEIR FINANCIAL STATEMENTS

YET ONLY

4% OF FRAUD IS DETECTED BY EXTERNAL AUDIT

The Four Pillars of Risk in Operational Finance

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ARE YOU UNDERESTIMATING THE TOTAL IMPACT OF OPERATIONAL FINANCE ERRORS?

Having worked with hundreds of customers over 15 years, and analyzed over 1 billion invoices with a value of over $7 trillion, we have developed unsurpassed knowledge of the full extent of costs and preventable risks in accounts payable processing.

Most organizations consider the cost of paying duplicate invoices, some will also consider the cost of audits and recovery projects, but few organizations consider anything further than these direct costs.

We estimate the true cost to be 3-5x the cost of duplicate invoices in typical mid- to large-sized organizations:

An Example

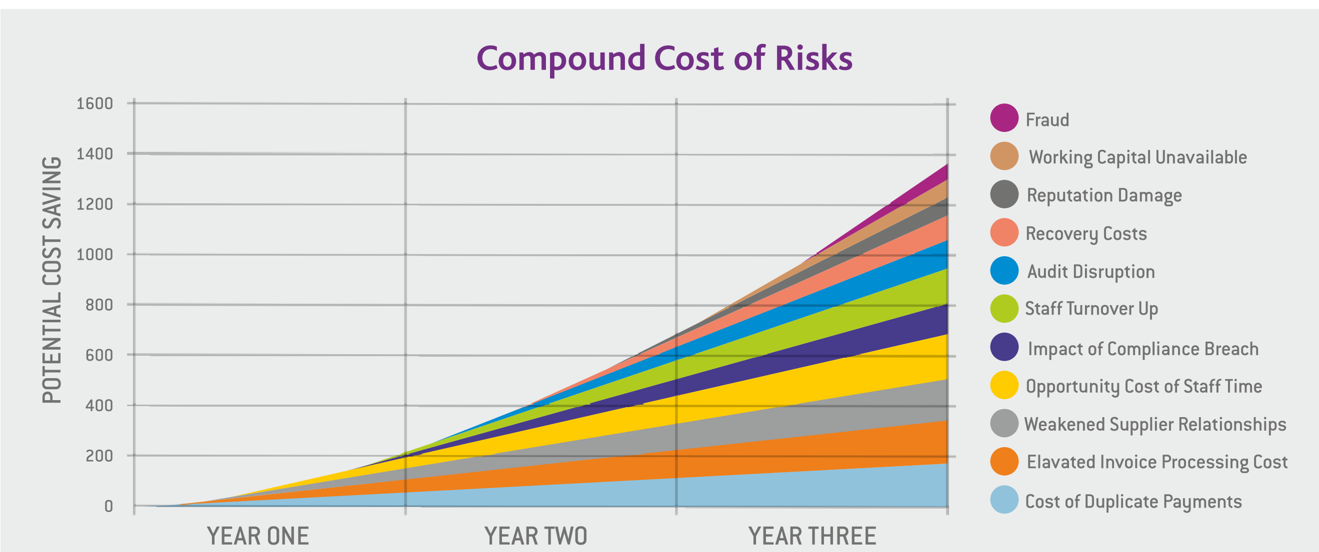
Estimates for the average number of duplicate invoices range from 0.1% to 0.5% (Institute of Internal Auditors) and up to 1.3% (SAP Concur). For every $100M in supplier spending, if 0.25% of invoices are duplicates, the potential loss is $250,000 per annum.

In addition to this, process improvements will generate substantial, long-term payback. Compliance with financial operations best practices will streamline inefficient processes within AP and with the adjacent teams of Procurement, Treasury and Internal Audit, making the end-to-end, procure-to-pay process more cost-efficient. Our experience shows that over three years, $250,000 to $500,000 is achievable in our example mid- to large-sized organization.

Time saved by eliminating repetitive discovery, information gathering, investigation, audits and recovery of duplicate payments, plus the opportunity cost of employee time not spent on higher value-adding tasks is derived from the number of invoices received annually and the frequency of audits – expect savings of 2-4 FTE employees in our example organization's AP team.

The impact of fraud and reputational damage are harder to quantify – regular, low-level fraud, misuse or abuse is commonly 0.1% to 0.5% of supplier spending, with less frequent, larger cases in the 100s of thousands or millions. With the effect of reputational damage impacting future revenue, fraud protection can yield $200,000 to $600,000 saved in this example organization.

Other significant factors include the impact of working capital being unavailable, weakened supplier relationships and higher staff turnover.



MOVING FROM REACTION TO PREVENTION

Responding to problems after they have happened is an inefficient strategy. Instead, organizations must focus on implementing new processes and technologies to find and correct irregularities proactively, and crucially, before funds leave their account.

By taking a proactive approach, organizations identify the root cause and prevent the same issues from happening repeatedly, resolving them again and again. This delivers significant, long-term reductions to the total cost of AP processing.

Over the long-term, this proactive approach reduces the risk of procurement fraud, protects the organization against reputational damage, and releases both capital and employee time to be reinvested into the business.

Every 0.1% of erroneous spend prevented is $100,000 saved per year in this example. Add in all the other costs associated with inefficient processes and incorrect payment recovery and another $300,000 to $400,000 are at stake. Larger organizations can lose millions each year.

TRADITIONAL CONTROLS CANNOT KEEP PACE WITH EVOLVING RISKS

The P2P process is exposed to greater risk today than at any time in the past. Invoice processing automation increases processing speed, but at the cost of visibility. These new technologies, coupled with reduced headcounts, mean that fewer people are reviewing transactions. Meanwhile, fraudsters are becoming increasingly sophisticated at exploiting this weakness.

Despite this increased risk, many organizations are still relying on outdated controls such as 3-way matching and audits to find and reverse incorrect payments. This basic and retrospective approach is ineffective at best: you cannot rely solely on traditional techniques to solve modern finance problems.

Auditing doesn't solve the problem either. The lengthy period between an error occurring and its detection (if it is detected at all) ties up working capital and increases the opportunity for fraud to go undetected.

Additionally, most of the risk organizations experience are in transactions that fall below the value that auditors review - smaller errors and fraud that repeatedly slip below the radar, leading to "death by a thousand cuts".

3-way matching no longer provides sufficient protection - there are many ways incorrect payments can still occur with 3-way matching in place, such as duplicate invoices with different dates, open purchase orders and bank mandate fraud.

THE TOTAL IMPACT OF RISK

The total impact of operational finance risks goes beyond the AP or P2P team, affecting all levels of the finance function and ultimately the profitability and competitiveness of the organization itself. This is not helped by traditional, reactive, methods of detecting and responding to errors, which focus on correcting problems after they have occurred rather than preventing them at source.

THE TOTAL COST INCLUDES THESE ELEMENTS:

- The Cost of Duplicate Payments – Organizations will continue to experience the pain of duplicate payments until they focus on prevention, rather than recovery.
- Increased Cost of Processing Invoices – Requesting replacement invoices and credit notes, and checking details held in other systems.
- Increased Cost of Procurement Fraud – A slow, reactive approach to AP errors means procurement fraud can fly under the radar for months before being spotted.
- Out-of-Reach Capital Reduces Funds For Growth – Working capital that leaks out through incorrect, fraudulent, and duplicate payments is not working for the business.
- Cost of Recovery – Recovery (where possible) takes considerable employee time or the use of an expensive external recovery auditor.
- Strained Supplier Relationships – continually asking suppliers for credit or refunds reduces cooperation and flexibility and contravenes most Corporate Social Responsibility policies.
- Lost Early-Payment Discounts & Late-Payment Penalties – Time spent following-up errors leads to slipped payment times, missed discounts and late payment penalties.
- Consequential Costs From Failure To Comply With Regulations – Government policies and regulation to protect suppliers from late payment are increasing.
- Increased Disruption From Audits – continued AP errors lead to disruptive audits.
- Damage to Team and Company Reputation – Procurement fraud damages the reputation of individuals, the finance function, and the organization.
- Opportunity Cost of Lost Employee Time – This time could be better used to generate actionable insights and drive strategic value.
- AP Team Are Demotivated and Uninspired – Facing and dealing with the same errors over and over again is demotivating for your team and a poor use of their skills.
- Increased Staff Turnover – Demotivated teams experience higher turnover and are more likely to be understaffed.

RISING TO THE CHALLENGE

By tackling the challenges above and taking a proactive approach, the finance department is viewed as innovative at board level, dispelling, at last, the myth that finance is primarily an accounting function.

With its privileged access to so much cross-department data, and by changing the team's approach to risk management with analysis, artificial intelligence and robotic process automation (RPA), the finance department can seize the opportunity to become a business driver, bringing the function out of the back office by providing cross-silo insights to the benefit of all functions.

85% of CFOs and their senior finance executives believe innovation is needed to drive better insights about the business. This reflects the changing nature of the finance function from accounting powerhouse to strategic leader. Finance sits at the confluence of all the business functions, and is best-placed to offer the sort of insight that can give organizations a competitive edge.

Innovation in the Finance Function - Global Survey 2018.
The FSN Modern Finance Forum

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YOUR NEXT STEP

ANALYZE YOUR AP / P2P SPENDING TO DISCOVER AND QUANTIFY YOUR RISKS

Hundreds of organizations around the world use FISCAL Technologies' forensic and artificial intelligence (AI) powered analysis to protect their organizational spend. The total benefits of moving to a preventative strategy far exceed the expectations of most organizations, and our solution typically pays for itself within 3-6 months and then delivers significant ROI over a 3-year period; 5 to 10x ROI is common.

FISCAL Technologies offer a no-cost, no-obligation Risk Review to provide an independent analysis of your financial operations, providing a clear assessment of the long-term benefits of its solution.

The discovery and recovery of previously unidentified historical overpayments can be used to fund the project.

THE RISK REVIEW WILL DELIVER

1. Immediate cost savings opportunities
2. Detailed analysis of AP and procurement transactions
3. Ranked list of high-risk suppliers and transactions
4. Recommendations for process improvements
5. Operational metrics and benchmarks

ACT NOW

With over 15 years of experience and over 1 billion transactions processed, valued at over $7 trillion in spend, we are in a uniquely strong position to protect your spend.

Find out how a Risk Review will help you improve operational effectiveness, implement proactive risk management, and achieve project payback within 3 months.

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FISCAL Technologies is a world leading provider of forensic solutions and services that empower purchase-to-pay teams across the globe to protect organizational spend.

Incorporating unique technology to reduce risk in the supply chain, FISCAL Technologies' award-winning, cloud-based risk management platform is used on a continuous, preventative basis to protect supplier spend, defend against fraud, increase profitability and drive process improvement.

Since 2003, FISCAL's solutions have processed over 1 billion transactions with a value of over $7 trillion in spend, and are now relied upon by over 250 leading private and public sector organizations.

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