

April 2009

Automating Accounts Payable

In a recent study Davis Kuykendall a research analyst with PayStream Advisors who specialises in Accounts Payable solutions identified the growing trend for automating the Accounts Payable function. Davis found that well over half the respondents surveyed by his company in 2008 reported that they had deployed or were deploying IT systems to support their AP process.

However, this still leaves many organisations where the Accounts Payable (AP) process is largely a manual one. As a result, AP departments in these companies often have personnel whose sole responsibility or a large part of their responsibility is to manually process supplier invoices.

The Challenges

There are many issues surrounding the typical manual accounts payable process.

- Collating invoices that come from different suppliers or cost centres in many different layouts and delivery formats – post, fax, e-mail, EDI.
- Labour intensive processes required to input data compounded further if linked to different costs centres and potentially involve currency conversion.
- Errors associated with manual data entry in accounting systems.
- Longer lead times due to manual routing, processing, and sign-off procedures involving individuals in different departments and possibly different countries.

- Inefficiencies due to time spent gathering physical documents in order to match invoices with purchase orders, delivery notes, contracts, and accounting system records.
- Inability to maximise financial benefits associated with payment schedules such as, discounts for early payments, or avoiding late fees for tardy payments.
- Risk of document loss or damage, as documents are received at multiple input points and may be routed or classified incorrectly.
- Costs associated with manual document routing, shipping, couriers, storage, etc.
- Inability to easily audit invoice processing and payments to match up document flow with the accounting system.
- Archive costs for compliance and accounts audits.

The Top Five Reasons Your AP Department Needs a Document Management Solution

Using document imaging and management software organisations can achieve the following goals:

1. Reduce Handling, Filing and Storage Costs. Once incoming paper invoices are scanned, either at a central location or at remote sites, they can be viewed by multiple employees regardless of location and/or routed for approval and processing without the expense, risks and delays of shipping. Electronic invoice handling results in savings in physical resources such as photocopying,

Accounts Payable is a strategic, value-added accounting function that performs the primary non-payroll disbursement functions in an organisation. As such, the AP operation plays a critical role in the financial cycle of the organisation. AP enables an organisation to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of the entire payables process. In addition to the traditional AP activities whereby liabilities to third-party entities (suppliers, vendors, taxing authorities, etc.) are recognised and paid based on the credit policies agreed to between the company and its suppliers, today's AP departments have taken on much wider roles including fraud prevention, cost reduction, cash-flow management, internal controls and vendor (supply chain) financing.



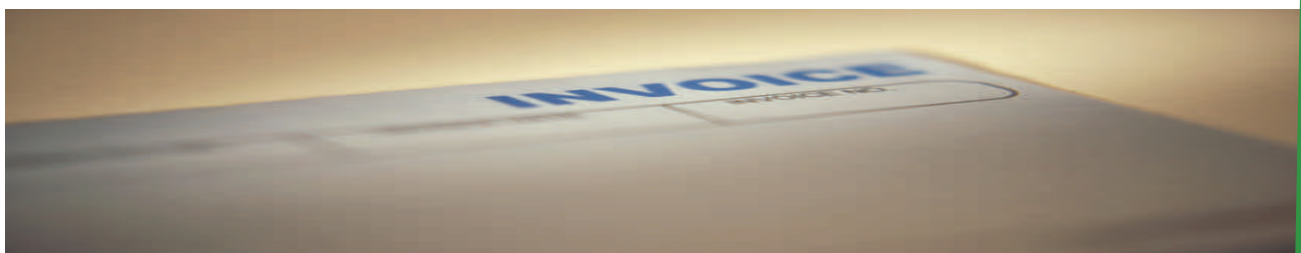
- rental costs, office supplies and offsite storage. Labour associated with low value tasks such as filing and retrieving documents are virtually eliminated, as the invoices can be retrieved immediately from the database either via the web or from the accounting system or other business application. Using document retention tools, outdated documents can be automatically purged from the system.
2. Speed-up Invoice Approval and Posting. Automated workflow can be configured to post invoices that match an existing purchase order (PO) to the accounting system without human intervention. This allows employees to focus on higher value tasks such as exception processing and non-PO-driven invoices, accelerating the posting of those items as well. Reduced cycle times increase the likelihood of collecting early-pay discounts, eliminate the chance of late payment penalties and improve vendor relationships. Automated workflow provides a view of work in progress that offers unprecedented insight into employee productivity. Managers can use this information to assign duties based on individual employee strengths.
 3. Process a higher volume of work with the same number of employees. Or fewer. Once scanned, those invoices that need human interaction can be load balanced to employees whether they are onsite, in a remote office, working from home or overseas. Based on pre-defined business rules, approval or exception resolution can be handled electronically instead of through inter-

4. office mail, eliminating the need to copy documents and track them on spreadsheets. Interactive e-forms can be created to drive these processes and guide employees through complex corporate policies. Workflow provides for additional layers of notification or escalation when action isn't taken in a timely manner. Provide Premium Service to Internal and External Customers at a Lower Cost. The database repository can store and associate supporting documents such as contracts and correspondence and make everything available from a single interface. Documents are available instantly by entering one or more keywords and can be displayed according to user preferences. Being able to answer customer inquiries in seconds improves the professionalism and morale of a customer service team while increasing productivity. Document Management software can also be used to reduce the number of calls AP personnel receive. For instance, authorised employees can be granted access to financial documents relevant to their jobs. In addition, external users can be provided with secure Web access to documents they may need. Password protection means that sensitive data (e.g., discounts, commissions etc) can be hidden and protected.
5. Support Compliance and Accountability. Not only is the risk of lost documents reduced by eliminating manual processing, but an electronic document repository can be backed up to ensure business continuity and

Invoice Processing. A typical process involving paying a supplier invoice begins with the arrival of invoice. Invoices can be in different formats including email, post, faxes, etc. Once the invoice arrives, the accounts payable clerk ensures that the invoice is valid and then classifies and sorts the invoice into various categories. Typically categories are specific to a particular organisation.

Once its category is defined, the invoice is forwarded to the responsible person for that particular invoice. This is normally the person who has requested the purchase order number and who has placed the order with the supplier. The invoice must be matched against the purchase order to ensure that the amount invoiced is correctly stated on the invoice. If the amount is right and the goods are there, the responsible person will have to approve the invoice by signing it off. If the amount invoiced exceeds a certain amount the superior of that person may have to approve the invoice as well. This of course differs from organisation to organisation. Once the invoice has been approved and there have been no variances, the invoice is posted into the accounting system usually by the Finance Department.

A typical invoice process can sometimes exceed 15 steps between arrival of invoice and the final posting.



disaster recovery. Workflow imposes consistency and prevents users from going outside of prescribed corporate policies. This capability strengthens internal controls and the ability to track them, as well as making it easier to accurately determine exposure and accruals. To reduce the costs and disruption of complying with audits, many organisations will provide auditors with temporary access to the Document Management system. In legal discovery, investigators can search across virtually all corporate content from a single interface.

Modcomp's Accounts Payable Automation Solution

Modcomp's Account Payable automation solution is based on industry leading document management software installed in over 6,000 customers worldwide.

The solution is modular which means that a customer can choose the specific elements to suit the particular business problem. The solution is also available on-line.

Modcomp's solutions work with many different operating systems and databases, but as a Microsoft Gold Partner, Modcomp recommends that our customers build their systems using Microsoft software.

SharePoint

SharePoint is Microsoft's fastest growing product. SharePoint provides a portal for users to access and store all their day to day documents and files. Share-

Point provides a single location for all electronic content that an information worker needs.

Modcomp is a certified provider of SharePoint based solutions. Our document management solutions are closely integrated with SharePoint and can therefore be incorporated into SharePoint quickly and easily.

Continue to use the Systems you are Familiar with.

Modcomp's document management solutions enhance your current back-office support systems. It is not necessary to replace current systems which staff are familiar with.

Modcomp's solutions provide the following features:

- Integrate with virtually any application,
- Users can retrieve related documents and kick off document routing from a dedicated PC application, or from office systems or a simple click from within line-of business applications such as accounting systems.
- Integrations, accomplished through point-and-click configurations, are often seen by users as a new feature of their software (without realising they are actually using a document management system)
- Integrations reduce manual entry by pulling indexing information from applications and automatically assigning correct keywords to content.

Savings. The Chartered Institute of Purchasing has estimated that the average cost of processing a simple purchasing transaction is about £60. If about a tenth of that cost is attributable to the processing of the invoice then it can be assumed that the cost of processing an invoice is approximately £6.

Companies that have automated the accounts payable process have found savings of up to 50%. Even in a small company handling 20-30 invoices a day therefore, the total annual savings of automating the AP process could be in the region of £13,000 - £15,000 a year.

However it is also recognised that the costs of lost invoices, or invoices that need to be chased for approval or correction can put this cost up even more. In one company that Modcomp worked with, it was found that on average an invoice received by the company was 'touched' on average by 7 people before it was finally paid and filed.

Finally some companies have also identified that by improving the payment process, they can reduce the time to pay. They have then used this to negotiate discounts from their suppliers based on early payment. A discount of just 1% on £1m worth of orders can result in a saving of £10,000.

