Report:

Perception vs reality – the real state of accounts payable and purchase order processing in UK business

INVU:

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Executive summary

The key results reported in annual reports, profits, cash, assets and liabilities are all dependent on transactions that flow through purchasing and accounts payable.

Those businesses that are best in class can plan and amend those plans with agility. They thrive on timely and accurate data. This requires the proactive management of transactions, early recognition of problems (exceptions) and timely corrective actions.

In purchasing and accounts payable, this translates into systems and processes that deliver efficiency, visibility and control. These systems have to drive timeliness and accuracy in the data and facilitate trust in the supply chain.

In this report, we review recent survey data on the use of budgets and plans, the maintenance of supplier relationships and the efficiency of processing supplier transactions. Comparisons are made to the results of a survey raising the same questions two years ago.

The results indicate that there have been some improvements over the last couple of years, but many companies are still paying a price for poor financial processes.

Background

This report is based on the views of 200 financial decision makers (Finance Managers, Senior Finance Managers, Finance Controllers and Chief Financial Officers) from medium (50-249 employees) and large companies (250-plus employees).

The data was gathered in January 2020.

This report investigates the state of accounts payable (AP) and purchase order (PO) processing in UK businesses and references similar surveys carried out by Invu in 2016 and 2018.

The scope of the report covers transaction processing and its impact on management reporting and planning, as well as the impact on supplier relationships and business operations.

HIGHLIGHTS

Planning and Management

- **57%** of businesses do not proactively use budgets as part of the purchasing process but await management accounts before they compare performance to budget.
- **45%** of businesses report supplier invoices are processed on a timely basis and that they can produce their management accounts promptly with few accruals, however:
  - **27%** delay their management accounts to wait for invoices to be processed and do not rely on accruals.
  - **22%** know they have a backlog of supplier invoices and make accruals to cover the invoices yet to be processed.
- **78%** of finance decision makers are spending less than one hour a day dealing with exceptions **(46 minutes a day is the average)** suggesting very few have systems or processes in place that enable them to manage by exception.

Supplier relationships

- **29%** of finance bosses rate their company's ability to pay suppliers on time as "excellent" and **48.5%** would rate it as "good".
- **22%** rate their company's payment performance between "average and poor".
- **67%** of finance decision makers say the finance team needs to request copies of supplier invoices – **19%** label it is a serious and consistent problem.
- **43%** of finance decision makers say teams have no real-time visibility over supplier invoices in the accounts payable process **(8% say they only have visibility once it's in the accounts payable ledger).**
- **54%** of finance decision makers say they can respond to supplier queries immediately as the status of the invoice is visible throughout the process.

Invoice processing:

- **32%** of invoices are still received in paper form (**42%** received as attachments**, 21%** via electronic data interchange).
- **72%** of businesses still require employees to print invoices received as email attachments
  - Only **6%** never do this.
- **28%** of finance decision makers say audit trails of supplier invoices are still reliant on manual filing systems (only **44%** say audit trails are viewable directly from the finance system).

Control and agility

A third **(33%)** of businesses use budgets as part of the transactional control (when a requisition is raised or purchase order authorised). They proactively use their budget to manage the level of purchase commitment made. This makes them very agile, as they can manage variances as they begin to develop. This agility appears to be in decline as **52%** of respondents identified this transactional control in 2018.

57%

do not use budgets until the production of management accounts

The remainder of respondents **(57%)** said that they do not use budgets until the production of management accounts. This significantly reduces their agility as variances may grow to significant levels in the weeks between when they first occur and when they appear in the management accounts. More problems may be in the pipeline, as by that time, many purchasing commitments could have been made that have not appeared in the management accounts.

27%

delay management accounts waiting for a backlog of invoices to be processed

The ability to make relevant decisions based on contemporaneous data is hampered when management accounts are held back due to a slow accounts payable process. This also lengthens the period for the recognition of variances and corrective actions. This survey found that **27%** of finance decision makers say they delay management accounts waiting for a backlog of invoices to be processed. However, this is down from the **31%** of respondents reporting this in 2018, suggesting timelier processing of invoices.

LATE PAYMENT

78%

of finance bosses rate their company's payment performance as either "excellent" or "good"

The late payment problem within UK business

The late payment of suppliers is well-reported in the UK. But, according to this survey, **29%** of finance bosses rate their company as "excellent" at paying suppliers on time, while **49%** say their company is "good".

Considering that, in 2018, **60%** of bosses said their company struggled to pay suppliers on time, with **20%** stating it was a significant problem, these new results would suggest an improvement.

25%

Large companies rating their payment performance as average to awful

(down from 64% in 2018)

19%

Medium companies rating their payment performance as average to awful

(down from 57% in 2018)

However, this perception does not square with the data provided to the Government's Reporting on Payment Practices and Performance Regulation (PPR), which shows that late payments are as big a problem as they have always been, if not slightly worse.

Three years ago (when the PPR register was created), **29%** of businesses reported paying suppliers late. In 2019, that figure had increased to **31%.**

What the PPR register also showed was that, instead of improving at paying on time, businesses are imposing extended payment terms on suppliers.

These combined result in suppliers having to wait on average 38 days for payment compared to 37 days two years ago.

Over one in five **(23%)** rate their company's payment performance as average to awful today, an increase from 2018.

23%

of businesses classify late payments as a "significant problem" **(up from 20% in 2018)**

One of the biggest talking points around late payments is whether they arise because businesses are using suppliers to fund them (which proved to be the case during the collapse of Carillion), or if poor business processes cause the delay of payments. The majority of responses in this report suggest ineffective business processes are causing the problem.

"The disconnect between the rosy perceptions concerning payment practices and performance in this report and the facts reported under both the Payment Practices and Performance Regulation and by organisations like the Federation of Small Business is alarming. Awareness of a problem and your part in it is the first step on the way to a solution. This state of denial does not auger well for the future health of the economy.

"It is not an overstatement to say that the future of many small businesses in the UK depends on solving this problem."

Purchasing processes "not fit for purpose" in UK businesses

17%

Finance decision makers who say their company's purchasing processes need to be fixed as a matter of priority

Over half **(55%)** of finance decision makers in UK businesses say their current purchasing process can be improved, an increase from **54%** in 2018 and **36%** in 2016, with almost a third **(32%)** considering making investments to improve it.

The number of finance decision makers who say their processes need to be fixed "as a matter of priority" has reduced slightly from **23%** in 2018 to **17%** today. The combination of these findings suggests that other priorities have gained ascendancy in the period. One overarching issue here may be concerns over Brexit.

This new survey has also seen a rapid decline in the number of finance decision makers who say their purchasing processes are easy to use. In 2018, **68%** of respondents said purchasing processes were simple and easy, that figure has now dropped to **57%**. Another **6%** say purchasing processes could be better but, worryingly, revealed their company was reluctant to make investments in software.

19%

Large businesses which need to fix their purchasing processes urgently

17%

Medium businesses which need to fix their purchasing processes urgently

There is always a balance to consider between ease of use and control. Ease of use is always important for achieving employee engagement in any process. However, this cannot override control over the expenditure.

A hybrid approach, using more than one purchasing system, is an indicator that ease of use is an issue. This often manifests itself where companies use a mix of Microsoft Office Word and Excel (or similar) as a substitute for, or in addition to, a purchasing system. While this approach remains prevalent in this report, applying to **21%** of companies, this has fallen since 2018 when **32%** said their company used a hybrid approach.

On the other hand, shifting focus too much towards control at the expense of ease of use can have similar negative effects. This is evidenced in this survey by the **11%** of finance decision makers who say they actively try to work around their company's current purchasing process to get anything done **(10% in 2018)**.

The main consequence here is the lack of visibility over the process and the potential for surprise expenditure, causing unexpected variances. Working around the purchasing system can also cause problems with receiving goods and services, and invoice processing. Both large and medium businesses make it difficult to make purchases for their company. **70%** of finance bosses in medium businesses claim purchasing processes are easy to use, compared to **54%** of those working for large businesses.

36%

Large businesses which make it difficult to make purchases

24%

Medium businesses that make it difficult to make purchases

"This report identifies the need to act quickly to improve purchasing processes. This has dropped down the priority list despite an increase in the percentage of businesses recognising that these processes need improvement.

"It's ironic that the uncertainty that has probably pushed these actions down the priority list, particularly concerns around the impact of Brexit, demands an agile response. This requires an investment in technology that enables ease of use and controllable purchasing processes enabling businesses to move quickly to adapt to changing circumstances."

Manual processes remain prevalent in UK business accounts

17%

of large businesses still use paper and manual processes for purchasing and accounts payable **(down from 42% in 2018)**

Digital technology can significantly improve employee productivity when implemented in a strategic, needs-based way and this report reflects a slight shift away from manual processes overall, compared to 2018.

In 2018, **41%** of businesses relied on either a wholly manual, paper-based process **(15%)** or a process based on Microsoft documents **(26%).**

This latest report has seen the overall number fall to **38%**, although the number of businesses using manual, paper-based processes has risen to **17%**, while the number relying on Microsoft documents has dropped to **21%**.

32% of businesses report that they receive supplier invoices in paper form, while **42%** receive them as email attachments and **21%** via Electronic Data Interchange.

Of those that receive documents in an electronic form, **28%** of respondents said they always print them off as attachments and deal with them manually, with **44%** claiming this either happens "sometimes" or "very often".

Interestingly, larger companies have overtaken medium businesses in moving away from manual or paper-based processes. While an average of **36%** of medium companies state that they always print out and deal with attachments manually, only **19%** of large companies reported the same.

Similarly, medium businesses are more likely to receive invoices in paper form **(37%)** compared to **29%** of large companies.

Paper remains a significant medium for documenting audit trails, with **28%** of finance decision makers stating the coding and approval audit trail is written on a paper copy of the invoice. Of the remainder, **4%** say researching an audit trail requires visiting many data sources.

With legal requirements for storing supplier invoices set at seven years in the UK, it is clear that both storage costs and the risks associated with paper (paper is a delicate medium and once that one copy is lost it cannot be recovered) are themselves a problem. The staff time and frustration that can be consumed retrieving paper documents or following complex audit trails will also come at some cost, a loss of efficiency, to the business.

This issue is more significant in medium businesses, where approximately one third **(32%)** still document the audit trail on paper copies, compared to 20% of large businesses.

The costs associated with storing this data on paper copies of invoices can be surprising. Not only is money spent on stationary (if printing copies of invoices) and storage, it is also spent in lost efficiency where employees are spending valuable time finding and deciphering the audit trails. If an invoice is lost, even more time is spent trying to retrieve a copy.

“Businesses operating manually at scale, with complex approval processes and processing large volumes of paper invoices, will be at a significant competitive disadvantage compared to competitors who have automated their processes.

“Introducing automation into the process can improve the efficiency, visibility and control over the purchasing and accounts payable processes, as well as reducing the costs of physical storage and document retrieval.”

Management by exception and productivity

The Pareto Principle is often applied to purchasing and accounts payable, identifying that **20%** of the transactions require **80%** of the work. Management by exception allows a business to focus on the exceptions and, over time, learn how to reduce the number of exceptions, enabling the business to scale without having to add resources.

This report identifies that the majority of time in many businesses is spent dealing with transactions that are not exceptions, so it will be difficult for these businesses to grow without adding staff.

78%

The proportion of UK finance teams spending less than an hour a day dealing with exceptions in accounts payable **(up from 73% in 2018)**

41

The **average number** of daily minutes spent dealing with exceptions within UK businesses **(down from 55 minutes in 2018)**

46-60

The number of daily minutes the **majority of finance departments** spend on exceptions within UK businesses **(up from 41 in 2018)**

The productivity of the accounts payable function is often measured by the number of invoices processed per head per hour – the processing rate.

Using manual processes in the accounts payable function is usually not considered productive due to the number of human touchpoints.

Automated accounting software can improve processing rates by reducing human touchpoints. This can be achieved by replacing data entry with automated data capture and enabling the flow of transactions to follow standard decision tables, rather than requiring staff to work out where invoices should be manually dispatched.

Focusing on transactions outside the scope of the process, the exceptions, then becomes the work of the accounts payable team. Learning from exceptions should result in useful feedback to suppliers and stakeholders, reducing the rate of exceptions in the future. A truly productive accounts payable team, therefore, spends the majority of its time dealing with exceptions.

Over the last two years, there is a reported reduction in this measure of efficiency, with the amount of time spent by teams dealing with exceptions falling from **55 minutes** on average in 2018, to **41 minutes on average.**

"The report suggests that accounts payable teams are still spending much of their time dealing with transactions that could be processed with fewer human touchpoints.

"There remains considerable scope for productivity improvements where teams focus on dealing with exceptions. Learning from their resolution should result in significant improvements in the process. Working in this way, staff experience less mundane work and the business sees an improvement in productivity and morale.

"This requires that accounts payable staff are provided with the software and business process improvements required to remove repetitive work, to enable them to focus on more value-added activities."

Limiting fraud: does UK business trust its processes?

Accounting fraud in the UK has been a consistent presence in headlines in the last year. This has been justified by the recent review into fraud cases by ex-Met Police Deputy Commissioner Sir Craig Mackay, who found that there was a **15%** rise in cases over the past 12 months.

70% of respondents in this report were unable to say they were "completely confident" that they had an accounts payable process that was robust enough to prevent fraud.

This has dropped slightly since 2018 with **71%** of respondents who reported the same issue.
20% of these were not confident at all in their accounts payable system **(down from 27% in 2018).**

17%

of medium businesses think their current accounts payable process is putting them at an unreasonable risk of fraud **(down from 31% in 2018)**

24%

of large businesses think their current accounts payable process is putting them at an unreasonable risk of fraud **(up from 23% in 2018)**

While it is reassuring that there has been a slight improvement, especially across medium businesses who have tried to take action to prevent fraud, evidently there is still work to do.

After seeing high profile frauds reported in the past two years, including Patisserie Valerie, is it surprising that more large companies are concerned about fraud than two years ago? Whether it is because of recent publicity or because their systems are becoming outdated, they are more concerned.

"The risk of fraud is always greater in poorly controlled accounts payable environments where there is a lack of visibility and often arises in businesses whose processes are inefficient. This research suggests that some attention has been paid to this risk over the last couple of years.

"Technology is now available to make the accounts payable environment less susceptible to fraud. By automating the process, businesses can increase efficiency, reduce human touchpoints, enable the visibility of transactions and ensure approval workflows are consistently applied. More time is then available to examine unusual transactions and detect fraud."

28%

The proportion of finance bosses who are 'completely confident' their business' current purchasing processes can prevent or detect fraud **(up from 24% in 2018)**

Duplicate payments

Duplicate payments are a symptom of poor accounting processes and call into question the completeness of processing. They also reduce trust in internal processes.

60% of finance decision makers in this report state their company has a problem with making duplicate payments to suppliers. **14%** said this was a “regular occurrence”, suggesting a serious problem with accounts payable processes.

This is, however, down from 2018, when **73%** of finance decision makers said their company had made duplicate payments to suppliers in the past.

36% boldly claim that their company has never made a duplicate payment before **(up from 21% in 2018)** with the rest saying they were unsure if duplicate payments had been made.

By far the most concerning proportion of respondents in this report are those who said duplicate payments are a regular occurrence.

Making duplicate payments, particularly on a regular basis, can have far-reaching consequences for a business, like:

- Lack of confidence in internal processes and accounts
- Falling confidence from suppliers when receiving multiple payments (and requests for refunds)
- Reduced productivity because people have to be tasked with tracking down and retrieving duplicate payments – and then taking more time figuring out why they happened

59%

of medium businesses have made duplicate payments

67%

of large businesses have made duplicate payments

"You never make an omelette without breaking eggs so, understandably, the odd duplicate payment has been made. Frequent duplicates, however, indicate poor practices.

"Any company making regular duplicate payments needs to invest in improving their accounts payable processes urgently."

Conclusion

This survey shows there remains plenty of scope for many businesses to invest in automation to improve their purchasing and accounts payable processes.

The well-used phrase "to fail to plan is to plan to fail" does not apply to those 90% who claim to use budgets proactively. However, there is quite a gap between those using them proactively when commitments are made **(33%)** and those using them when the transactions are recorded in management accounts **(57%)**. This gap is particularly relevant where management accounts are produced slowly or late.

Many indicators in this report suggest the slow or late reporters suffer from purchasing and accounts payable processing issues. These range from accounts held up while awaiting invoices to be processed due to the manual processing of paper-based transactions, to concerns about how robust their processes are when it comes to fraud.

Late payment is often an indicator of poor accounts payable processes. Surprisingly, this report shows a perception from finance decision makers that there have been improvements, while actual payment practices demonstrate the opposite. This gap between perception and reality damages supplier relationships.

Other indicators that purchasing and accounts payable processes are poor include frequently requesting copies of supplier invoices and being unable to answer questions promptly, also adversely impacting supplier relationships.

This combination of slowly available data for decision-making, and the adverse impact on the supply chain are compelling reasons for looking at ways to improve the purchasing and accounts payable process.

KEY TAKEAWAYS

One in three **(30%)** finance decision makers say that their company's current purchase order processes make it difficult to make purchases on behalf of the business; **11%** of those say processes are so difficult that they have to work around them to get anything done.

While the fear of accounting fraud has decreased in the last two years, **70%** of finance decision makers are still unable to say they are completely confident their processes are robust enough to combat fraud.

- **23%** of finance decision makers say late payments are a significant problem within their company **(up from 20% in 2018)**.
- **14%** of finance decision makers say their company makes duplicate payments to suppliers on a regular basis.
- **38%** of companies are still reliant on fully manual processes, or rely on a system using Microsoft Word and Excel.
- **73%** of finance decision makers say their company struggles to pay suppliers on time.

About
Invu Services Ltd

Founded in 1997, Invu develops electronic document management (EDM), accounts payable (AP) and Purchasing solutions for a range of sectors, particularly those which are highly document dependent, or where compliance is important. Invu's comprehensive product suite encompasses document and content management, workflow, document automation and collaboration solutions.

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