

Accounts Payable Recovery Audit: Steps and Best Practices



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Properly managing your accounts payable department is necessary to keep it running smoothly.

There are a variety of management techniques you can employ to keep it that way, including utilizing segregation of duties and three-way matching.

But even with those safeguards in place, you should still set aside some time to complete an accounts payable recovery audit.

What Is an Accounts Payable Recovery Audit?

■ What Is an Accounts Payable Recovery Audit



An accounts payable recovery audit is an audit used to identify and recover AP funds paid in error such as overpayments and duplicate payments.

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Depending on what AP processes you use and whether you're using manual processes or an ERP system, overpayments, duplicate payments, or other errors may be rare, or you may find that there are numerous issues that need to be addressed.

Once an issue has been identified through the AP recovery audit process, it will need to be thoroughly investigated.

It's also important to create a plan for addressing overpayments and duplicate payments that are identified without damaging valuable supplier relationships.

What Is the Purpose of the Recovery Audit?

An AP recovery audit can help businesses identify and recover funds paid in error to vendors and suppliers.

There are several reasons why an AP recovery audit may be a good idea for your business.

- Your AP department staff has changed
- You're in the process of upgrading technology
- Your business is undergoing expansion or a merger
- You've recently added a large number of new suppliers and vendors

An AP recovery audit is also a good idea for businesses still using manual systems to process purchase orders and pay invoices, since a manual process without built-in safeguards makes it easier for duplicate payments and overpayments to slip through the cracks.

But even if you're using an automated AP system, it's still a good idea to conduct an AP recovery audit regularly, since even a single error can cost you money.

Who Conducts an AP Recovery Audit?

In many cases, an AP recovery audit is conducted by in-house personnel, depending on the AP processes in place.

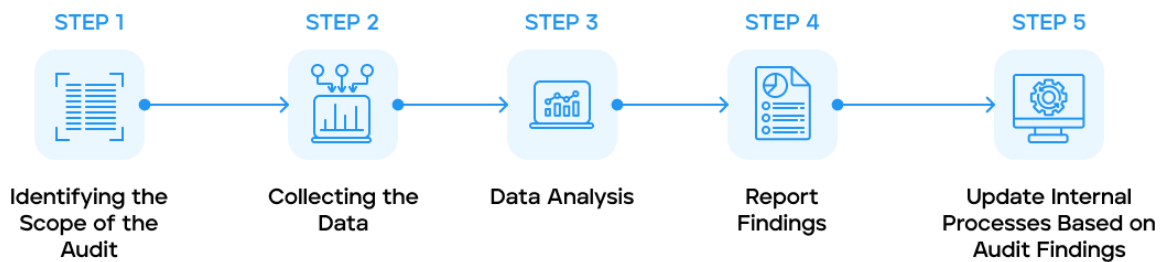
Because PLANERGY integrates with third-party accounting solutions, conducting the AP recovery audit is a much better option than hiring a third party to complete the audit since you'll be able to view all AP activity from initial order to payment in a single application.

For those not using an integrated application, it's much more difficult to spot payment errors, so using a recovery services firm may make sense.

What Are the Steps in an AP Recovery Audit?

An AP recovery audit includes several steps in the process. These steps include:

What Are the Steps in an AP Recovery Audit



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1. Identifying the Scope of the Audit

This initial step helps to narrow down the specifics of what auditors will be looking for, including pinpointing which vendors or suppliers will be included in the review.

2. Collecting the Data

Once a plan is in place, data such as invoices, payment records, bank statements, vendor and supplier contracts, and financial statements will be collected and assembled for review.

3. Data Analysis

Once the data is collected, document analysis and validation can begin. This includes everything from examining vendor and supplier historical activity to determining whether a check or ACH payment corresponds to the invoice.

Data analysis of invoices can also spot duplicate payments, and missed discounts, and even help spot fraudulent activity.

4. Report Findings

After all relevant data has been analyzed, a report is prepared that details the findings of the audit, as well as a plan for recovering funds paid in error.

5. Update Internal Processes Based on Audit Findings

The AP recover audit findings help pinpoint existing issues, allowing you to make any necessary changes.

What Types of Recoveries Are Found?

An AP recovery audit can identify several recoveries including the following:

What Types of Recoveries Are Found



Overpayments



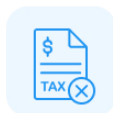
Missed Discounts



Pricing Errors



Duplicate Payments



Sales and Use Tax Errors



Unaccounted-For Returns

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• Overpayments

Overpayments occur for a variety of reasons, including payment for products not received or a payment made for the full amount when a credit memo should have been applied.

▪ **Missed Discounts**

If a discount is not noted at the time an invoice is recorded, it's very easy to pay the full amount of the invoice in error, even if it's paid within the allotted time frame.

▪ **Pricing Errors**

If three-way matching is not completed before processing an invoice, you may end up paying too much for an item.

▪ **Duplicate Payments**

Duplicate payments are a common occurrence when you're using manual data entry.

One wrong number or an extra letter added to an invoice can result in the same invoice being paid twice.

▪ **Sales and Use Tax Errors**

During the review process, an AP recovery audit should also look at sales tax rates charged and paid to determine whether the amount of tax is appropriate for that jurisdiction.

▪ **Unaccounted-For Returns**

When a product is received and later returned to a vendor or supplier, the vendor, and supplier should issue a credit memo for the return.

In some cases, the original invoice may be paid by AP before a credit memo is received, while in other cases, a credit memo is never received at all.

An AP recovery audit can also uncover fraudulent expense billing and reimbursement.

What Are the Main Risks of Not Recovering Accounts Payable?

The biggest risk of not recovering accounts payable overpayments is all the money left on the table.

AP recovery firms have estimated that recoveries average between .05 % to 1% of revenue, which may not seem like much to a smaller business, but for larger businesses, the loss of revenue from overpayments and erroneous payments can be significant.

What Is an AP Audit?

An AP audit examines the financial transactions of the accounts payable department.

Even if you've recently completed an AP recovery audit, it does not take the place of a standard AP audit. Implementing an accounts payable audit program will result in additional benefits.

AP audit procedures will review the following.

■ What A Standard AP Audit Reviews



Transaction
Accuracy and
Completeness



Compliance



AP Validity

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• Transaction Accuracy and Completeness

During an AP audit, the audit team thoroughly examines a variety of transaction types for accuracy, including purchase orders, invoices, and shipping receipts to determine whether each document was accurately

recorded and paid.

During the audit, both paid and open accounts payable balances are examined for a proper audit trail, and compare any unpaid balances to an invoice.

• **Compliance**

Compliance with both internal controls and Generally Accepted Accounting Principles (GAAP), if your company is public will be reviewed.

Auditors will look at other internal processes as well, including how invoices are handled both before and after payment is made as well as whether segregation of duties is part of the AP process.

• **AP Validity**

AP auditors may examine either a paid or unpaid invoice to determine its validity.

This process usually occurs when an auditor spots unusual activity on an invoice.

Validity is usually determined by contacting a vendor or supplier to confirm the balance.

What Is the Objective of an AP Audit?

The main objective of an AP audit is to ensure that all AP transactions are accurate, while also determining that all the necessary checks and balances are being used properly.

An AP audit can also uncover potential fraud and help pinpoint areas that may need improvement.

For example, an AP audit can point out delays in the approval process by looking at the date of the invoice and the date of approval.

Generally speaking, an AP audit has several objectives:

■ What Is the Objective of an AP Audit



Examining
Checks and
Balances



Accuracy



Calculations



Classification

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▪ **Examining Checks and Balances**

An AP auditor will examine current checks and balances utilized by the company, including segregation of duties, as well as any other internal controls to ensure they are being properly adhered to.

▪ **Accuracy**

Auditors will carefully examine a variety of transactions to determine accuracy.

This includes checking current AP balances against invoices, examining paid invoices against payment records, and reviewing current invoices for accuracy and legitimacy.

Contract compliance may also be reviewed for adherence and potential discrepancies.

▪ **Calculations**

One of the most important steps in an AP audit is reviewing current AP balances recorded on your balance sheet against open invoices.

Auditors may also recalculate invoices to ensure that payments were accurate.

• Classification

One of the biggest issues companies may encounter is misclassification of accounts payable expenses.

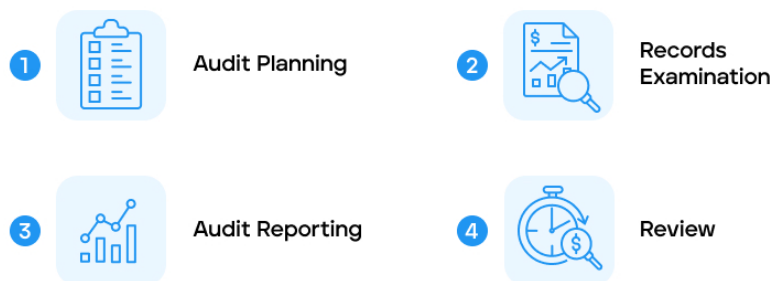
Auditors will examine invoices against general ledger balances to make sure that expenses have been recorded in the proper account.

While an AP audit can be conducted internally, for mid-size and larger companies, it's best to have a disinterested third-party conduct the audit.

What Are the Audit Procedures for Accounts Payable?

There are four stages of the audit process; planning, examination, reporting, and review:

■ What Are the Audit Procedures for Accounts Payable



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1. Audit Planning

The planning stage is one of the most important stages.

During the planning stage, the auditor will map out a plan for the audit, providing the company with the parameters.

This usually includes a list of transactions that the auditor will be

reviewing, as well as what financial reports are needed.

2. **Records Examination**

Once the audit plan has been delivered, the auditors will arrive to review the transactions listed in the audit plan, as well as other items that may come up during the audit process.

3. **Audit Reporting**

Once the audit is concluded, an audit report is prepared with the findings of the audit, highlighting any issues that may have been uncovered during the audit process.

The report also includes recommendations for improving processes and guidelines for the future.

4. **Review**

Once the audit is complete and a report issued, there may be a follow-up audit scheduled to ensure that any recommendations have been put into place and any trouble spots corrected.

What Is the Difference Between a Recovery Audit and an Audit in Accounts Payable?

Both the AP recovery audit and an AP audit look for issues in the AP process, but the focus of an AP recovery audit is to address overpayments or other errors that can be recovered., while the focus of an AP audit includes process and procedure.

In some cases, an AP recovery audit can be part of a general AP audit, but in most cases, an AP recovery audit is conducted separately.

What Are the Benefits of Completing an AP Recovery Audit?

Of course, the biggest benefit of completing an AP recovery audit is being able to recover lost revenue from duplicate payments, payments made in error, and credits not taken.

But there are other benefits from completing an AP recovery audit including:

• Other Cost Savings

By identifying weak areas in the procurement and AP payment process, companies can not only recover lost revenue but can institute process improvements that eliminate the issues that caused the overpayments in the first place.

This can be done by updating AP processes from a manual system to an automated procure-to-pay application like PLANERGY.

• Streamlined Processes

Because bottlenecks and their root cause are identified during the AP recovery audit, businesses can take the necessary steps to eliminate issues going forward.

• Better Decision-making

It's difficult to make accurate decisions for the company if the numbers on your income statement and balance sheet aren't available in real-time.

Without transparency in all aspects of AP, your decision-making process will be seriously impacted.

Completing an AP recovery audit may be a time-consuming process, but there are several audit service firms available that can handle the process for you.

Whether it's completed as an internal audit or by a recovery audit firm,

conducting an AP recovery audit is a wise decision for your business and your bottom line.

What's your goal today?

1. Use PLANERGY to manage purchasing and accounts payable

We've helped save billions of dollars for our clients through better spend management, process automation in purchasing and finance, and reducing financial risks. To discover how we can help grow your business:

- Read our case studies, client success stories, and testimonials.
- Visit our Accounts Payable Automation Software page to see how PLANERGY can automate your AP process reducing you the hours of manual processing, stopping erroneous payments, and driving value across your organization.
- Learn about us, and our long history of helping companies just like yours.

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