



Accounts Payable - The Unappreciated Crucial Component of Financial Operations

Overview

The largest portion of most organisations' cash outflows is typically made up of payments for products and services provided on credit terms, or simply Accounts Payable (AP), as it is known in accounting parlance. AP is the amount an organization owes its suppliers for goods or services received but not yet paid for. The balance of accounts payable for these suppliers is usually shown on the company's balance sheet or statement of financial position as current liabilities.



Accounts payable is critical to every organization's financial operation, ensuring timely payments and an exceptional reputation with suppliers. However, in many organizations, accounts payable faces a slew of issues ranging from duplicate, fraudulent, or late payments to unrecorded liabilities and excruciatingly inefficient processes that result in poor supplier relationships.

AP manual systems still call the shots

Many organizations use paper-based and manual processes, which significantly increases AP risk exposure, particularly when it comes to managing day-to-day cashflows. Over the years, AP has faced a series of challenges that are directly linked to its reliance on paper-based processes with 31% of AP leaders indicating that this continues to pose significant problems for them (Arden Partners, 2021).

Even where processes may be automated, legacy systems and procedures are unable to provide straight-through processing without some amount of manual intervention in invoice processing despite some level of automation. In such cases, the AP team will have limited time to devote to higher-value operations like as expenditure analysis, cashflow management, risk mitigation, and supplier relationships. Instead, they work lengthy hours on monotonous duties including invoice data entry, error investigation, invoice exception resolution, and responding to supplier inquiries.

AP is susceptible to fraud and other irregularities

Regardless of the industry in which an organization operates, AP systems are particularly vulnerable to a variety of anomalies, with fraud being the finance manager's worst nightmare.

Furthermore, despite its delicate role of overseeing an organization's largest source of cash outflow and the high-risk exposure that Accounts Payable faces on a daily basis, many executives regard it as merely an innocuous but necessary function not requiring much of their attention and strategic focus. This laissez-faire approach to AP management has in many cases perpetuated the vicious cycle of common accounts payable problems such as fraudulent payments, sluggish processes, paying a single invoice twice, issuing cheques for unauthorised purchases, paying for undelivered goods, and a high rate of invoice exception or a high level of erroneous invoices.

If AP is not properly managed and organized, it can extremely be exposed to both internal and external fraud. This is especially common where internal controls are lax and employee collusion is rife.

In the recent past, Mr. Hakainde Hichilema, the Republican President of Zambia, has repeatedly decried potentially AP fraud whereby invoices in millions of Kwacha are presented to government for goods and services that were never supplied or provided. As a result, the Ministry of Finance has appointed independent audit firms to conduct forensic audits of Accounts Payable in selected government agencies.

According to PwC's 2018 Global Economic Crime and Fraud Survey, Accounting Fraud is one of the top five most prevalent crimes in Zambia with a 33% incidence rate. Based on the survey, this is much higher than the global and African average incidence rates of 20% and 23%, respectively. While the survey results do not expressly attribute this to Accounts Payable, it is not unreasonable to deduce that it is a contributing factor.

In 2005, employee fraud involving connivance by personnel from end-user departments, procurement, and AP shook a Copperbelt based Mining Company around 2005. News 24 reported that the mining company lost up to US\$2.5 million in a supply scam discovered by company's management. The scheme entailed the supply of various items to the mining company, with invoices signed and paid for goods that were never delivered.

Often underestimated and misunderstood

Despite the fact that AP team plays a significant role of ensuring a good cash flow, guarding against fraud, and cultivating long-term supplier partnerships, their role in the business is frequently underestimated and misunderstood.

The misperception derives from the fact that AP is typically assigned a back-office role that exists solely to process invoices. As a result, it frequently takes a back seat to management's competing agendas. This limited view of AP as solely transactional has the potential to harm cash flows, expose the organization to opportunistic fraud, limit competitive strength, and harm the business's image with suppliers.

Final thoughts

In hindsight, it does not have to be a mundane invoice paying unit, Accounts Payable is a value adding function. A business partner. Organisations leaders and decision makers must start looking at Accounts Payable with strategic lenses. A well-managed AP not only serves as the first line of defense in protecting an organization's money, but it also prevents and detects errors and fraudulent payments. So, the truth is that accounts payable is much more than merely paying invoices. To optimize financial operations, Accounts Payable can be converted into an insight-driven value function. This will necessitate having a clear view of the organization's day-to-day transactions. Taking a strategic approach to accounts payable management also necessitates a paradigm change away from the narrow payment transaction perspective.

ZCAS Research & Consultancy Advisory Note

With our specially developed training and AP process optimization consultancy, ZCAS can help your organisation to improve strategies and processes aimed at optimizing your accounts payables management function, whilst transforming its operations.

References

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