Gaining Efficiencies in the Accounts Payable Process
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1 What is the opportunity for improvement?

The market for invoice processing is a huge one: According to a recent study by IOMA (The Institute of Management & Administration), while 70 percent of incoming mail is bills, 96% of invoice processing involves keying data from paper.

The total cost of invoice processing includes sorting the documents, keying in the data, three-way matching of purchase orders, invoices and goods received notes, approving the invoice and then archiving the paperwork.

As a consequence the processing of each supplier invoice costs between £2 and £10 to the company. Naturally, when a problem occurs, this cost can become significantly higher; 1 in 5 invoices encounters problems. For example, the invoice received from a supplier is for a quantity or price different to that in the buyer’s internal systems. Queries may need to be forwarded to Purchasing or a receipt point, which then need to carry out the check and feedback information to the finance department to approve the appropriate action.

The average time taken to process an invoice is 12 days, and only 44% of companies take less than one week, with 25% needing more than 3 weeks – with the inevitable consequence that nearly 30% of all invoices are paid late which ruins a company’s chances of obtaining early payment discounts.

This huge amount of inefficiency leaves plenty of room within these processes for improving accuracy and reducing costs – which makes the vast majority of corporate supplier invoice payment operations more than ready for automation.

1.1 Typical Business Problems

Typical business problems that prompt managers to investigate Automated Invoice Processing (AIP) Systems include;

- **Procurement and sourcing controls designed to improve purchasing efficiency are frequently poorly implemented.** This results in an inappropriate use of an available solution, e.g. a purchase-to-pay process optimised for preferred suppliers using an enterprise resource planning (ERP) system may also be used for large numbers of ad-hoc invoices from non-preferred suppliers simply to get payments to them. Consequently there is a large overhead in maintaining unnecessary supplier data required by the ERP system, which can corrupt the purchase-to-pay process, for example if the ERP system assumes a purchase order has been raised and looks to match an invoice with it, an invoice from a non-preferred supplier without a purchase order will result in an exception

- **Increased cost of Invoice payments due to lack of scalability in existing systems.** A further consequence of poorly implemented procurement and sourcing controls occurs when the supplier base grows considerably, increasing the complexity and cost of processing and paying their invoices, and creating extra work to maintain information on them in ERP or accounting systems

- **Unacceptable frequency of Invoice rejection.** A high percentage of invoices being rejected by a customer or requiring investigation due to apparent discrepancies in the invoice details
• **Disorganised processes not geared to maximise financial opportunities.** Inefficiencies in the payment processes frequently result in failure to take advantage of favourable supplier terms on offer for early or punctual payments. They may even cause suppliers to raise prices to compensate for high maintenance customers. Or worse still, the supplier puts the account on hold status, causing significant supply chain problems.

• **Disorganised processes allowing over payments.** Inefficiencies also lead to incorrect payments being made and even duplicate payments, which create more work for both supplier and customer, increasing workload and costs.

• **Excessive Invoice processing costs.** The cost of processing an invoice or payment can be way in excess of the profit or even value in the transaction, often because large volumes of low value invoices and payments are put through inappropriate and unnecessary processing.

In summary, manual and paper based invoicing and payment processes can significantly impair business efficiency and incur unnecessary costs, while inappropriate use of invoicing and payment systems and poor implementation of purchasing controls lead to further inefficiency, even where automation has already been introduced.

1.2 Preference for paper

There is little doubt that the most deep-seated value of a paper document is to reassure its owner. To nervous minds, having several physical copies of the same document will decrease the probability of losing all record, and increase the likelihood of keeping at least one specimen.

With global irregularities resulting in increased compliance regulations and legislation, companies are deciding to print and archive thousands of documents every day purely in the interests of ‘risk avoidance’.

For many, printouts and copies of documents are still seen as the safest way of having the information circulate within the company. Holding the document electronically is generally not perceived as offering the same level of reliability and security as the paper version.

It is also generally accepted that organisations have a legal obligation to archive some documents as paper for a certain time. However, many of the guidelines laid down by Revenue and Customs regarding the archival of documents have changed with technology developments. Consequently it is now time to review what is considered acceptable because significant process efficiencies and cost savings are achievable.

Storing documents electronically is becoming more and more widespread in the business environment and we are beginning to reconsider our traditional view that a hard or paper copy of a document would supersede an electronic copy in legal admissibility.

Legal requirements have developed and been succinctly worded to allow electronic documents in certain formats as legally binding evidence. Furthermore companies are no longer required by law to maintain hard copies of certain documents in their record-keeping systems when an electronic system that adheres to certain standard requirements has been implemented.
Nevertheless, resistance to change is impacting the opportunity to significantly reduce the amount of paper documentation that companies have to process and store, even where new technologies and legislation are paving the way.

2 The Key Issues for Accounting Departments

2.1 Relying on Accurate Information

Accurate information is at the heart of financial efficiency, and is key in the decision making process.

However, it is still worthless if it is either invisible to the people who really need it or is not delivered in a timely manner.

Two aspects are vital considerations in arriving at accurate information;

- Processes – These must be simplified wherever possible, creating efficiencies and eliminating excessive rework and unnecessary detail. A key component in process improvement includes automation, which shortens processing cycle times and helps eliminate human error.
- Standardisation - This is also important since consistent treatment of data reduces redundancy and saves time. Standardising data management enables a focus on the analysis of results, which increases visibility into information and allows for more strategic decision-making and buyer–supplier interactions.

In the paradigm of the accounts payable function the implications of making vital decisions relating to cash management without being properly informed, could be catastrophic to the company’s cash-flow. Conversely, being able to maximise cash management opportunities by having greater access to valuable and accurate information can mean increased revenue through high interest bearing accounts.

In an environment where invoice data does not enter the accounting system until 2 or 3 weeks after having been received, and forecasting the company’s expenses on a day to day basis are not possible, the risks are compounded and the opportunities lost.

2.2 Reducing Costs

Global economic uncertainty, rising energy costs, and increased competition are pressuring businesses to continually reduce costs and streamline their supply chains in ongoing efforts to remain competitive. Accounts Payable is a prime controller of company cash flow and rebate capture potential.

According to the PA Consulting Group’s International Managing for Shareholder Value survey, 77% of companies claim to measure and tightly manage the use of their cash. This focus on the tight management of cash is a manifestation of the increasing pressure companies feel to reduce costs.
Organisations can cut the cost of Accounts Payable by up to 90% simply by reducing the use of paper-based processes, generating an estimated annual cost savings of $590,000 per billion of revenue, according to new research by The Hackett Group. According to Senior Business Advisor Cliff Struhar, CFOs whose finance organisations are not capturing these cost savings should demand them immediately.

Furthermore, those organisations who view cost reduction as an evolving process with clearly stated measures and objectives are those who consistently deliver the greatest increases in performance.

2.3 Tracking and Solving Problems Rapidly

We all use e-mail, but in conjunction with automated reconciliation and error discovery, in an electronic environment the review, validation, and resolution of errors and disputed invoices can be responded to in real time.

The Aberdeen Group states that in order to transform the Accounts Payable process into a strategic function will require the building of strong e-mail workflow to be proactive and accelerate notification, decision making, and resolution.

An automated, more real-time discovery and resolution process improves efficiency and by using application based reconciliation, validation, error discovery and prevention external auditor fees can be reduced significantly.

The process should have priorities in validation and error prevention, and the list typically includes flagging key indicators such as:

- Duplicate invoices
- Purchase Order number missing
- Non-validated purchase order
- Unusually large payments values
- Payments to non-commercial addresses
- Split requisitions or purchase orders
- New or black-listed supplier

2.4 Focusing on the Relationship with Suppliers

Maintaining good relationships with suppliers is often seen as a way to obtain regular discounts. It is often the case that paying invoices on-time usually lead to a 2 to 3% discount from the supplier. But it is also necessary to guarantee continuity of the quality of services and products provided.

The Hackett Group has been actively researching the areas of best practices for supplier relationship management. This research was recently published in a white paper entitled “Achieving World Class Source to Settle through Best Practices”. When they compared companies that have an average performance in key practice areas with companies that have embraced and adopted best practices, they made some interesting discoveries.
While the average company counts 37% of its contracts as ‘long term’, 75% of contracts from companies adopting best practices are long term. As a result of this, these companies can benefit from lower administrative costs and the ability to negotiate better prices.

2.5 Transferring Data to the ERP

Enterprise Resource Planning (ERP) describes a broad set of activities that help manufacturers and other companies manage key areas of their businesses, including accounts receivable and payable, stock control, purchasing, customer service and order processing. Software applications by leading vendors such as SAP and PeopleSoft have emerged to support these activities by providing a single interface to ERP data, often employing different modules for general aspects of the business to assist the end users in specific areas such as finance and engineering.

However, the vast majority do not provide Automated Invoice Processing (AIP) functionality, and even where it is present, it is generic, unable to be tailored, and not ‘best of breed’.

Integrating this supporting functionality helps companies realise the maximum benefit from an ERP investment. In some cases it is even critical to realising that benefit. It is now possible for companies with ERP applications to leverage powerful application solutions for integrating and managing their business critical data.

Where a best of breed solution is chosen, the challenge is to feed the ERP system with precise, accurate and timely data. Consideration should be given to the right platform to access and feed necessary data in a secure and scalable environment.

A good AIP system can be integrated with nearly any ERP or financial software system to create a functionally rich, end-to-end automated solution that achieves both efficiency and compliance and delivers seamless access to the information critical to business success.

3 How does an AIP (Automated Invoice Processing) System work?

Automatic invoice processing encompasses three different steps:
1. Extraction of accounting data from paper invoices,
2. Validation workflow adapted to the rules of the company,
3. Archiving and viewing of the invoice images.

3.1 Data extraction – Manual or OCR?

In recent times recognition technology has evolved to the point where mixed batches of forms or “unstructured” (also known as “semi-structured”) forms – can be recognised in software with far higher accuracy rates. These terms relate to a group of functionally alike forms that have dissimilar layouts. The use of forms processing software to recognise semi-structured documents
is growing and broadening, increasing mainstream adoption by companies across all industries. Studies have confirmed that the department with the greatest need for this technology is the accounting department; with most reporting a high demand for processing Accounts Payable forms such as invoices.

Groups of forms can be categorised as unstructured or semi-structured when they contain the following characteristics:

- The forms are not designed by the receiving/processing company
- The forms are received in a variety of layouts that can differ from sender to sender
- The forms cannot be processed using the traditional method that uses a predefined form template to locate the required data fields on each of the forms in a particular batch.

In other words, an unstructured or semi-structured form is a member of a group of functionally alike forms that have dissimilar layouts and that are processed in high volume by the recipient.

In the past, the random differences among unstructured forms would mean that, because they cannot be processed using the traditional template-based approach, they would have to be processed via manual re-keying. However, recent innovations have resulted in sophisticated algorithms that can spontaneously and accurately locate numerous specified data fields within the same document type across a diverse array of form layouts.

It is now generally recognised that per-document recognition accuracy can be achieved reliably and consistently at rates greater than 60%. This means that out of every 1000 invoices processed by a company, an automated invoice processing system can classify, validate, and extract data from at least 600 of the documents with zero error rate, and then pass the data into a workflow and approval system. When recognition results fail to meet pre-set thresholds based upon user-defined confidence levels, the remaining invoices are rejected by the software and sent for manual review and correction. The result is a saving that typically amounts to at least a 60% reduction in overall processing costs.

However, there is no doubt that these savings only come as a result of significant initial investment, and also have an associated set up and maintenance overhead, to manage the rules based logic catering for the forms. Additionally, accuracy rates may still not be high enough to convince a project sponsor to invest in such a solution.

The alternative option, to manually key data into an invoice registration screen displayed alongside the scanned image, may initially appear cumbersome, but by analysing the precise business requirements could result in a minimal overhead. In some instances the actual data input requirements can be distilled down to Purchase Order Number, with further information required only on an exception basis.

3.2 Workflow validation and approval

Workflow can be defined as the automation of a business process in which documents, information or tasks are passed from one or more participant to another for action, according to a set of procedural rules.
It frequently comprises many functions and activities such as a review process, task lists, notifications, alerts/triggers, reminders, context sensitive tasks, an approval process, status/tracking, due dates and reporting.

Workflow is normally comprised of a series of logical steps called a hierarchy that define a business process. Each step contains a task to be completed and the participants that will perform the task. The task could be items such as a review assignment, an approval process, or a request to update a document. Some tasks within a workflow hierarchy, such as a simple e-mail notification, can be automated and require no participants.

Automated workflow is important inside an organisation because it ensures maximum throughput and accuracy when distributing work or tasks. It improves the control of a process with less manual intervention, eliminating misplaced work, reducing delays, and ensuring tasks are performed according to your company’s policies and procedures.

Workflow software provides four primary functions:

- Distribution of Work
- Automation
- Integration
- Feedback, Control & Monitoring

### 3.2.1 Distribution of Work

Distribution of work means delivering the right information, to the right person, at the right time. AIP software takes “work” (paper or electronic invoices, POs, receiver and shipper documents, etc.) and appropriately moves it throughout an organisation according to pre-set business rules.

By adopting email as the vehicle for moving this “work” it moves the content into a domain which is easy to access, familiar to the end user, and involves no additional cost. Providing links directly from the email to the application and the particular document, as well as any required supporting information, enables the approver to respond on demand.

For instances of absence which provide a threat of disruption to the workflow, more sophisticated systems can manage planned holidays by routing email to an alternative approver, and where absence is unforeseen, or deadlines are missed, escalation functionality can ensure that deadlines are never missed.

At any point in the workflow and approval process, supervisors can view the approval route progress with full audit history of any or all invoices to which they are authorised, and redirect or determine where blockages occur.

There are many steps that lead up to data being entered either manually or automatically into the ERP solution. These steps are vital to the overall AP business process. Unless these steps are completed accurately and within an organisation's stated timelines, the ERP can offer no value.

### 3.2.2 Automation

Automation provides three basic functions in an AIP environment:

- Performs repetitive tasks correctly every time
- Automates complex tasks
Where an invoice is rejected because a problem exists that causes the organisation to defer payment or completely reject the invoice, the invoice recipient must then send some type of communication with the invoice back to the originator detailing the reason for rejection (i.e. lacks a valid PO number).

To deal with this situation efficiently you want a record of the invoice and the outbound communication (bound together) that was generated by the knowledge worker who made the decision to reject the invoice. This simple example presents a strong case for content linked back to each transaction. With an AIP system the complete context of the transaction – whether accepted or rejected – is recorded in the system. Now, anytime in the future when a question arises about invoice payment, the recipient of the inquiry will have the complete picture about why the invoice payment was rejected, as well as all of the supporting content and business reasons.

3.2.3 Integration

Providing relevant information to an end user in an environment which they are familiar with and is easy to access is vital to ensuring the useability of a system. In a workflow environment where process dependencies exist, the user needs to be served information which alerts them to an action which they need to perform, or at least be aware of. The alert should contain enough information to inform the user of everything they need to know, and provide easy access directly into the application, and more specifically to the relevant transaction which was the subject of the alert.

3.2.4 Feedback, Control & Monitoring

Knowing what is in your pipeline – whether sales data or expense data – is critical. Because AIP software is overseeing and managing the entire Accounts Payable business process, obtaining metrics and reports about every touch point in the process is possible. As you would expect, AIP software usually includes the ability to monitor all aspects of the process from a birds-eye view down to a specific invoice being worked on by a given worker at that moment in time. If management sees a bottleneck building at a particular workstep within the overall process, management can reallocate work on the fly or otherwise optimise the BPM process without having to make extensive coding changes to the process. Getting data out of the process is easy, too. Point and click interfaces with graphical data representations are just a couple of the highlights contained in the reporting and metric tools.

So, while it is true that workflow does exist within ERP, it only exists within the framework of the ERP product. As clearly pointed out above, AIP is very much needed outside of the ERP in order to assure complete integrity of the entire business process.

3.3 Viewing and Archiving

Electronic Document Management (EDM) technologies can easily be applied to supplier invoice processing.

They make it possible for accounting managers to retrieve the images of the scanned invoices while they are being processed or after they have been archived. One of the most recent and useful developments in this field is the capacity of EDM tools to give access to images on remote
locations through the internet. Companies can easily specify the type of criteria, or indexes, they need to retrieve invoices with.

Research has shown that electronic document management frees time, frees office space and increases an organisation’s efficiency.

Most EDMS solutions are database driven. Once scanned, documents are attributed electronic bookmarks or indexing information allowing them to be retrieved through a search based on any given number of fields. This brings file retrieval time down to seconds in many cases and gets rid of the headaches and sore feet associated with hunting down historical paper files.

An electronic system is often not just a replacement for filing cabinets. Those companies extracting the most benefits from EDMS are those that also examine the way in which their documents and systems impact on their day to day work. Efficiency of workflow is something that can be maximised through the process of carefully choosing and implementing an EDMS. The benefits of this do in turn have a real financial impact.

Rather than simply focusing on the downsides of paper filing, there are a number of benefits specific to EDMS.

- Information sharing – files can be viewed simultaneously by a number of users across multiple sites or divisions
- Improved customer service – rather than taking details and calling a customer back with answers to queries or order updates once files have been found, details can be available on screen in seconds
- Long term file preservation – historical files can be sensitive to both light and humidity. Regularly accessed files deteriorate and faxes fade. Scanned documents are preserved indefinitely.

Calculating the projected return on investment is more of a difficult task. EDMS benefits such as space saving and staff efficiency might be quantifiable but putting a figure on the ‘softer’ returns of improved customer service is harder still as it reflects a whole shift in a company’s approach to working practices.

The total benefits depend greatly on the nature of documents, the processes usually followed and potential efficiencies identified by electronic management. To illustrate this point, take an Accounts department as an example. For an invoice to come into the office, be copied twice and delivered by hand to a department head for authorisation can take days. To then be returned, delivered to the Accounts head for authorisation and then to be entered into the system would take further time. For companies with a large throughput of invoices, it would pay for them to scan incoming invoices and use an internal email link to circulate such documents. Further functionality additions to an EDMS would streamline the payment process at every stage.

To clear office space, some businesses would be suited to simply archiving documents that are rarely referred to but which need to be retained. Scanning to .tif files on disk would enable the paper documents either to be destroyed or to be stored for the long term off-site. The scanning itself would be an outlay, but would, over time, inevitably be compensated by the space-saving and staff efficiency level as less time is needed to locate a file.

A modular scalable system allows businesses to take the elements they need, with documents saved in a way that means they can be transferred across system upgrades and to more complex applications with ease.
4 What Benefits will it provide ?

4.1 People Productivity

By using automatic verification with basic controls – such as total amount is equal to gross amount and VAT – and the use of external databases, 95% of anomalies could be corrected without any human intervention. Only complex problems would need to be solved by expert operators who could deal with them even before the paper document has finished circulating in the company. Using both the image of the invoice on the screen, and data retrieved from the ERP system, the number of user interventions can be greatly reduced.

4.2 Improved Supplier relationships

Settlement and dispute resolution processes are complex, tending to be very paper-intensive and error-prone. The area of settlement is one that is very frustrating for most organisations, causing a large administrative burden that is often underestimated. The reality is that most Accounts Payable departments are mired in paperwork and the communication lines between requestors, buyers and suppliers are completely broken. This is one area that benefits especially well from the application of best practices. In highly effective, efficient organisations, best practices provide a framework for preventing disputes, minimising errors and settling accounts more rapidly. Technology plays an important role here, since Web-enabled invoice transmission and dispute resolution streamline processes and quickly resolve issues, while automating the request-to-cheque process helps to improve cash flow.

4.2.1 Reduce late payment charges

Two-thirds (68%) of the UK’s Small and Medium-sized Enterprises (SMEs) regularly suffer cashflow problems as a result of delayed payments, despite the Government’s drive to tackle this issue.

According to new research from Bank of Scotland Corporate Banking, conducted amongst 1,000 SMEs across the UK by the Opinion Research Business, a staggering two-fifths (43%) of owner-managers have also taken legal action against a customer for non-payment.

On average, small businesses must wait 40 days before their bills are paid. Nevertheless, a worrying one in eight (13%) SMEs wait, between 61-90 days for payment and a small but alarming 2% wait an average of over 90 days.

Consequently, The Late Payment of Commercial Debts (Interest) Act 1998 gives businesses the legal right to charge interest on overdue bills or invoices.

Initially only allowing small businesses (defined as businesses with fewer than 50 employees) to charge interest on monies owed by large businesses, it was extended on 1 November 2000 to include money owed by other small businesses. And on 7 August 2002 big businesses were given the same right.

Incurring these costs is unnecessary, and punitive to bottom line profits and long-term supplier relationships.
By implementing good practice and backing that up with a good workflow and approval system, it is possible to ensure that payments are made to suppliers in line with the terms that govern the contract. This does not mean paying early and unnecessarily reducing cash at bank (unless early settlement discounts are available and a decision is made to utilise them), but instead eradicating the possibility that your supplier will levy punitive surcharges.

4.2.2 Better Supply Chain Management

A potentially far more damaging possibility is that a key supplier will place your account on ‘hold’ status until all payments are made. In a fast moving on-demand manufacturing process for example, this could have serious repercussions if the supplier provided a key component in the manufacture of your goods, resulting in unfulfilled customer orders.

Whilst this in itself could have a very costly outcome, additional costs are likely to be incurred if an alternative supplier has to be found. The administration and set-up costs apart, it is likely that you will not be in a favourable buying position, and will come under pressure to pay increased prices.

4.2.3 Maximise supplier discounts

There are significant time and cost benefits to effective settlement, but the greatest value to organisations can come in the form of attractive cash discounts. According to US-based consulting and research firm Celent Communications, companies can often capture as much as a 1% to 2% discount off invoices for paying suppliers within 10 days – savings that rapidly add up to an increase on the bottom line.

For example, suppose your organisation wants to capitalise on a discount offered when an invoice is paid within 10 days. In a manual environment, accomplishing this would require that each and every invoice be manually inspected for those terms, and that all invoices would be processed correctly within the 10 days. It would also require that every employee involved in the AP process (which begins with the mail room) is made aware of the special handling considerations. If any one of those employees unintentionally overlooks those payment terms, it could result in a significant loss in potential savings. The timeframe can be missed not just by an honest mistake or oversight, but also when an employee is ill or on leave, or even by a temporary worker that is not aware of the exception process.

4.3 Reduce duplicate Payments

The International Accounts Payable Professionals and The Institute of Management & Administration estimate that the average company’s duplicate payments reach one-tenth of one percent of its spending. While this may initially sound negligible, a company that spends $1 billion annually can be paying out $1 million in duplicate payments.

The issue of overpayment and duplicate payments is entirely the responsibility of the accounts payable department. Many companies go to the expense (both in time and dollars) of auditing their records to discover and recover these lost costs on a regular basis, but are never able to move beyond this process. When you consider that these audits are performed on a regular basis it becomes clear that most companies are caught in a cycle of overpayment and partial recovery that results in an erosion of profits in the long term.
Solving the problem at source, by ensuring a consistent entry process, and employing rigid security techniques to highlight any possibility that this invoice already exists in the system will drastically diminish duplicate payments and reduce the need and frequency of external audit.

4.4 Improve cashflow visibility

Cash flow management involves five basic areas:

- Collections. Moving cash from sales into a company's bank accounts, for use in the day to day operation and continued growth of the business.
- Disbursements. The transferal of funds to creditors and employees.
- Bank relations. The coordination, evaluation, and comparison of bank services and on-going negotiating of fees.
- Cash forecasting. Using historical data and current pipeline data to predict cash flow and determining the optimal liquidity for growth and operations.
- Borrowing and investing. Maintaining sufficient liquidity for current and future needs, minimising interest on borrowed funds, and maximising return on invested funds.

Without visibility of timely and accurate data, the management of cash flow will be significantly impaired. Adoption of a good AIP system will allow financial controllers the option of various high level views, showing at a glance the financial liability of Supplier payments.

4.5 Paper storage and distribution

Costs involved in the manual distribution, printing and storing of documents can be reduced significantly,

- Paper costs. If correspondence or invoices have to be sent by post, then automatically saving a file copy to the EDMS will halve the paper costs. If they can be sent electronically, then paper costs are further reduced.
- Print costs. This covers both the costs associated with desktop printing and photocopying. If files can be copied or indexed and linked electronically, then photocopiers begin to be surplus to requirements. Rental and maintenance costs can be cut along with the incidentals such as toner and ink.
- Storage and retrieval costs. In this, include the disruption to the business in the instance of document loss, and the time it takes staff to locate files, maintain filing systems and re-file documents once used. Significant floorspace could be freed and you would have opportunities to streamline your workforce through implementing an EDMS.
- Distribution. This covers internal and external posting costs. Why send by post when you can email documents much faster, more reliably and for a fraction of the cost?
5 Admissibility of Scanned Documents

Paper based business filing systems only ever seem to get bigger and more complex. Legal requirements and compliance regulations stipulate that we retain enormous amounts of paper based transactions, studies and correspondence for many years before they can finally be destroyed.

As a result, valuable office space is allocated to the storage of all this paper. The situation gets worse when you consider that with so many pieces of paper being filed by hand, errors are frequent, procedures are poorly implemented and staff can spend hours searching for obscure documents.

Nowadays however, technology can offer an alternative solution. The ability to store paperwork electronically in a secure, scalable environment has resulted in the document scanning and electronic storage industry becoming one of the fastest growing around.

Implemented as part of a well planned and documented overall process, electronic filing offers many benefits. Using a variety of access points (Internet, Intranet etc.) allows staff to share files, and enables greater retrieval methods and speeds that would drastically cut the time to locate a document. As a result of progressive new guidelines much of the paperwork can now be destroyed once scanned, and the filing space then used for other, more profitable purposes.

One of the barriers to business adoption of document scanning is the issue of legitimacy and acceptability of scanned documents. For example, if an issue arose with a VAT query, how confident could you be that Revenue & Customs would accept scanned documentation as legally binding evidence?

5.1 Will a scanned document stand up in court?

In comparison to paper documents, the issues for electronic documents seem to rest on how much integrity they have in terms of derivation and authenticity rather than their admissibility. Indeed governing bodies including courts now accept electronic documents as evidence and supporting material, providing companies can prove that they’ve taken all appropriate measures to ensure their integrity.

The most relevant point of law to address in relation to electronic documents is probably The Civil Evidence Act of 1995. In its simplest form, a submitted document that has clearly been unaltered since its creation or which brings with it a clear audit trail that categorises any changes made to it, holds more evidential value than a document that may have been amended in its lifetime.

Sections 8 and 9 of the Civil Evidence Act 1995 illustrate the legal guidelines for electronic documents as evidence:

8 (I) Where a statement contained in a document is admissible as evidence in civil proceedings, it may be proved:
(a) by the production of that document, or
(b) whether or not that document is still in existence, by the production of a copy of that document or of the material part of it, authenticated in such a manner as the court may approve.
(2) It is immaterial for this purpose how many removes there are between a copy and an original.
9 (I) A document that is shown to form part of the records of a business or public authority may be received in evidence in civil proceedings without any further proof.
(2) A document should be taken to form part of the records of a business or public authority if
there is produced to a court a certificate to that effect signed either by an officer of the business or authority to which the records belong.

In essence, this law can be interpreted to show that an original document is not the only admissible evidence in civil courts. Electronic copies of scanned documents are acceptable so long as their integrity can be proved.

5.2 What does the VAT man say?

Revenue & Customs only refer to ‘records’ in their guidelines. Their only prerequisite is that you inform them as to the format you use to retain your records.

HMRC Reference: Notice 206 (March 2002)

This document states:

“If you keep all or part of your records and accounts on a computer, you must make sure that you can account for duty properly and that we can carry out full inspections when we visit. If your system does not meet our requirements we can ask you to change it.”

If you do wish to store and use scanned copies of records for VAT purposes it is preferable to seek permission from your VAT office and ensure that legible copies can readily be produced and that there are adequate facilities for enabling Revenue & Customs to view them when required.

By also following the Code of the British Standard BSI DISC PD0008 in addition to the requirements of Revenue & Customs, a company can take the best precautions available to ensure that their records are acceptable for a VAT inspection.

Acknowledgements

HMRC Reference: Notice 206 (March 2002)

5.3 And the Tax Man?


“For unincorporated business we have already indicated in Tax Bulletin Issue 21 (February 1996) that records may be preserved on optical imaging systems, and the originals discarded, provided that what is retained in digital form represents a complete and unaltered image of the underlying paper document. We are now able to go further. Both in the case of companies and unincorporated businesses we can accept other methods which preserve the information in the records in a different form. This is so long as those methods capture all the information needed to demonstrate that a complete and correct tax return has been made and are capable of yielding up that information in legible form. Businesses need to bear in mind this second condition when they change or up-date computerised accounting packages and ensure they have the software to access the old data”
In this Tax Bulletin, the Inland Revenue also makes the important acknowledgement that any company complying with the British Standard BSI DISC PD0008 will automatically satisfy the tax requirements for keeping electronic records.

Acknowledgements

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5.4 Timescales for record keeping

At present, under the terms of the Companies Act, for most companies the timescale that the Revenue requires material to be retained is set at 6 years from the end of an accounting period.

In cases of investigation or late return submission, then this period will extend accordingly. Once again, electronic records management is by far the easiest method of storage for convenience and space-saving benefits.

Conversely if the 6 year rule causes you serious storage problems or undue expense, you can consult the Revenue & Customs National Advice Service, which may allow you to keep some of the records for a shorter period.