REASONS FOR ERRORS

There are numerous reasons for the errors that occur in the accounts payable environment and create the need for an accounts payable audit.

Human Factor/Work Load

Wherever a large amount of paperwork is processed by a number of people working under time constraints in a cost conscious or profit-oriented environment, errors are likely to occur. Our experience demonstrates that accounts payable departments are very efficient in processing payments. The important factor is volume, because even in a very efficient environment, a small percentage of error translates into a large revenue loss for the firm. One tenth of one percent error translates into $1,000 lost per one million processed!

Staff Turnover/Personnel Considerations

Insufficient staff and staff turnover or realignment of staff responsibilities can lead to omissions and or errors in payment processing.

Accuracy of Information

Accounts payable departments must rely on the accuracy of the information they are provided. Specifically, purchase orders must be assumed to be a reflection of updated and accurate contracts and agreements. Should this not be the case, huge amounts of revenue could be and often are inadvertently lost.

Purchasing and Materials Management Procedures

The staff in most purchasing departments is typically as overburdened as the A.P. staff. The volume of work to be done brings the same human error factor into play that affects the A.P. department's work.

Unfortunately, many purchasing agents begin to rely on the vendors themselves to ensure the integrity of agreements. All too often, contracts are not updated and therefore purchase orders do not reflect accurate terms, conditions and prices. Any breakdown in this area can lead to huge revenue losses for the firm.

Policies and Procedures

Adherence to proper established policies and procedures regarding filing, payment of invoices, taking discounts, checking invoices for errors in terms and pricing, computing tax, reviewing freight charges and any of the other areas regarding payment processing is vital to a firm's operational efficiency. Any omissions or deviations from the established policies and procedures can result in substantial revenue loss.

Computerization and Automated Systems

Many firms are either in the process of or already have streamlined their operations by computerizing and automating the payment and purchasing process. While this is the recommended course of action, there is an unfortunate and sometimes unexpected side effect. All too often staffs become overconfident in the efficiency of these systems. Unfortunately, most system designs place priority on speed of processing information, not accuracy. Even the most sophisticated systems with certain "accuracy checks" built in are not fail proof. In any case the system will only be as accurate and reliable as the persons programming and inputting the data. It only takes small errors in small proportions to create a substantial loss.