INVU:

Purchasing and Accounts Payable
Survey 2021

The COVID-19 stress test for business: an accelerator for change

Contents

1.0 Executive Summary

1.1

Commentary

COVID-19, and specifically the new age of lockdowns, has proven to be a stress test for purchasing and accounts payable functions that will act as an accelerator for both organisational and technological change.

In a post-COVID-19 world, hybrid remote working will emerge as the new normal for the majority (55%) of accounts payable staff with digital systems serving as the great enabler.

Artificial intelligence ("AI") was gaining ground in accounts payable before COVID-19 (21%) and over the next 12 months (33%) will gain more ground. It is unclear whether in the long term it will complement or be a substitute for the role of staff. A sizeable minority (24%) see no value from AI in accounts payable.

The dramatic change in the economic environment over the last 12 months has shifted the key financial metrics from revenue growth to cost-cutting. This places more emphasis on the purchasing and accounts payable functions.

One form of cost-cutting during the pandemic has been staff furlough and accounts payable staff have experienced this across all sectors.

The late payment of suppliers and particularly the payment practices of large companies have been in Government focus for some time. The pandemic has seen a deterioration in measured payment practices. However, the majority (74%) see themselves as good performers.

The timeliness and accuracy of management accounts and reliable cash forecasting are brought into focus in uncertain times. A majority (71%) of businesses report within 10 working days and a majority (94%) complete cash forecasts.

Budgets are a key overarching control for most businesses (90%) and those that use this control at the point of management reporting (58%), publish more quickly (79% within 10 working days).

In cash forecasting, the visibility of forward commitments is key to avoiding financial surprises. Most businesses (62%) use integrated forecasting (sourcing data from their accounts payable and purchasing systems).

The pandemic has emphasised the importance of the supply chain. A major element of a healthy supply chain is supplier trust. Many businesses (68%) use competitive tendering and related contractual terms in lieu of building supplier relationships. Compliance with these, in such instances, is key to trust.

Efficiency, visibility and control in the purchasing and accounts process are vital for businesses to achieve timely and accurate accounts, reliable cash forecasting and supplier trust.

In this survey, we see that generally the movement away from paper-based processes towards digital has yielded improvements.

Digital systems have:
- contributed to faster processing times by reducing the time spent transforming data on paper into the accounting system, introducing ease of use that helps improve compliance and joined up processes that enable a faster accounts close;
- improved control, delivering more robust systems to deal with fraud and error;
- and provided greater visibility, reducing the duplication of work and improving customer service levels, both at the transaction in process and audit level of activity.

There remains much fragmentation and anomalies exist at many levels:
- Invoices received by email being printed out (85%) even if the system is digital (25%);
- The accuracy of account coding in digital environments is still considered to be inferior to manual coding by accounts staff.

This report is based on the views, gathered in February 2021, of 210 financial decision-makers who have responsibility for the accounts payable function. They represent medium (50-249 employees) and large companies (250-plus employees). Their job titles include Finance Managers, Senior Finance Managers, Finance Controllers and Chief Financial Officers.

1.2 Highlights

COVID-19 has accelerated a change to remote working for finance staff:

- Full-time office attendance expected to drop to 33% from the pre-COVID-19 73%.
- Most (55%) of finance workers expect to be Hybrid (part-time home, part-time office-based).

Systems have impacted behaviour during COVID-19:

- 61% of workers with paper-based systems have spent time in the office compared to 31% of digital workers.
- Meanwhile, accounts payable staff have been furloughed in 41% of businesses.

Paper still has a place in the accounts payable process:

- 85% still print out supplier invoices attached to email some of the time.
- 24% of businesses still work with manual paper-based processes.
- 30% are operating digitally end-to-end.

The focus of key financial metrics has moved from Revenue and Profit to Cost Cutting and Cash:

- Cost-cutting up 31% from 20%; and cash up 14% from 9%.
- Revenue and Profit are now 26% each, these were 36% and 33% respectively before.

Key purchasing and accounts payable results indicators:

64% consider their payments performance is either excellent or good.

71% publish their management accounts within 10 working days.

62% complete cash forecasts using actual data from their purchasing and accounts payable systems.

68% use competitive tendering for sourcing supplies of goods and services.

Efficiency of invoice process:

- 70% process supplier invoices within 10 working days.
- 76% store their invoices in digital form.
- 58% believe their purchasing system was easy to use.
- 40% have an up-to-date purchase ledger and at month-end raise few accruals.

Visibility:

24% either frequently or always request a duplicate copy of supplier invoices.

54% can answer supplier questions in real-time.

67% store their invoices digitally and can easily see the audit trail.

Control over purchasing and invoice processing:

83% are confident their systems are robust enough to prevent fraud.

85% identify account coding errors emanating from accounts payable.

41% make duplicate payments more than exceptionally.

32% use budgets as a transactional control.

46% currently believe their purchasing system is effective.

2.0 Background

COVID-19 has accelerated the pace of change. Not only affecting where we work but also how we work, including not only the media we work with but also how we communicate. The observation often attributed to Lenin "there are decades where nothing happens and there are weeks where decades happen" applies here.

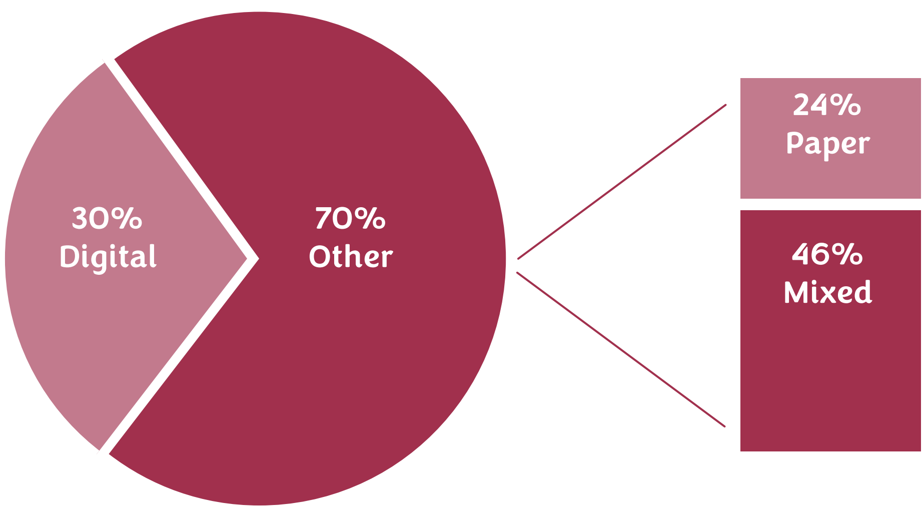
> **"there are decades where nothing happens and there are weeks where decades happen"**

We have run this survey every two years since 2015. In January 2020, we released the latest update and then by March 2020 the world had changed. COVID-19 has affected every aspect of life and the purchasing and accounts payable function is no exception.

We were consequently eager to find out the impact of COVID-19 on the world of purchasing and accounts payable. Therefore, we carried out our survey a year early. In February 2021, we asked 210 Financial Decision Makers, with responsibility for the accounts payable function, their views on the current state of play.

The survey identified that 30% of our sample were working in wholly digital environments and 70% were not. Of those not working in wholly digital environments, 24% of the overall total worked in manual paper-based environments. Throughout the survey, we refer to the 30% as digital workers, the 70% as non-digital workers and the subset of 24% as paper workers.

Digital and Non-Digital



2.0
Background

Before the survey, we saw COVID-19 as an accelerator for technological change and the survey was one way of testing that hypothesis.

We see three technological accelerators and two economic factors set in the background of this acceleration in the pace of change.

The technology accelerators are:

Remote working

The Government requirement that "everyone who can work from home must do so" had an impact on all those industries allowed to continue to operate during the three lockdowns. This was set against a background of a slow trickle toward remote working before COVID-19.

Digital Transformation

Digital transformation has been a technological trend for several years in a number of forms. COVID-19 could be seen as an accelerator for digital transformation in accounts payable and purchasing. How did those businesses, who had digitally transformed before COVID-19, fare compared to those who had not?

Articifical Intelligence (AI)

AI is a very broad church, embracing learning (machine learning), language (natural language processing), perception (vision and speech recognition), and motion and manipulation (physical robots). From some perspectives, it has been around for years, but particularly in white-collar occupations, it has only really become a force for change in the last ten years. Will the disruption caused by COVID-19 be an accelerator for AI?

The economic factors relate to business focus and the impact on accounts payable staff themselves:

Primary Financial Metrics in Business Focus

The lockdowns have resulted in a significant jolt to the UK economy. Government reports show that UK GDP fell by 9.9% in 2020, primarily due to the impact of COVID-19. Given this change in the economic environment, how did business react in setting its goals?

Furlough and Accounts Payable

The Government introduced the furlough scheme to support businesses. How did this affect the accounts payable function?

2.1
Remote Working

a) Given the command “everyone who can work from home must do so” how did finance react?

We see in finance, before COVID-19, 73% of respondents working wholly in the office, descending to 16% still wholly working in the office during COVID-19.

Homeworking already featured in finance before COVID-19, with 22% working with a mix of home and office attendance and 5% working wholly from home.

During lockdown, these figures changed to 37% working with a mix of home and office attendance, and 47% working wholly from home. The Bank of England Decision Maker Panel Report published in February 2021 shows that 38% of the workforce was working at home in February, with the numbers ranging between 29% and 41% over the months since April 2020.

b) This begs the question: why couldn’t finance workers work from home?

The survey shows that 10% of those working digitally were still full-time office occupants, whereas 28% of those who were paper-based attended the office full time.

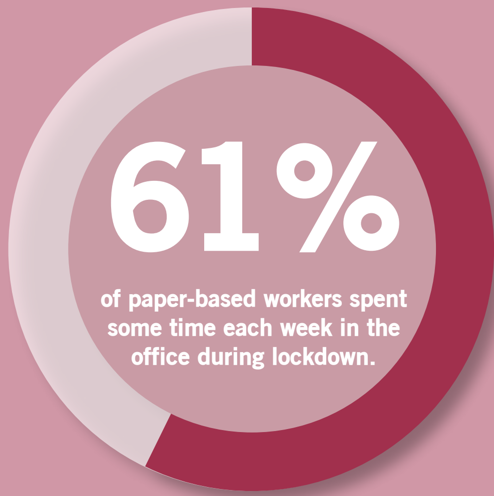
Combining these figures with those who had to attend the office some of the time, 31% of digital workers compared to 61% of the paper-based workers attended the office some of the time.

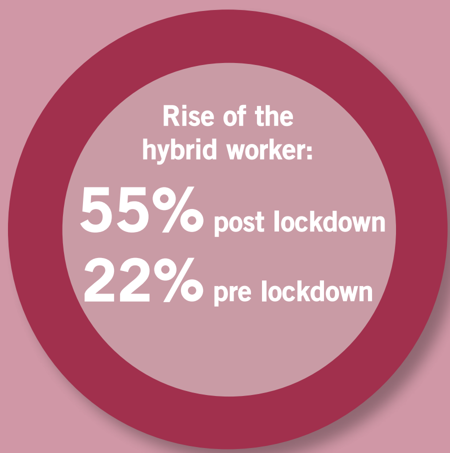
c) Has this resulted in a long time change to where work is performed?

Post-COVID-19 intentions show a movement primarily to a hybrid model, sometimes in the office and sometimes at home. Pre-COVID-19, 22% were hybrid and post-COVID-19, 55% plan to be hybrid.

The trend for those not planning to be hybrid sees those working from home full-time more than doubling from 5% to 12%.
Whereas the full-time office population will shrink from 73% to 33%.
These figures do not spell the demise of offices, with 88% of the finance workforce still planning to attend the office some of the time.

Again, we see systems shaping different trends here between digital workers where 27% plan to return to full-time office work, and paper workers, with 43% returning to office work full-time.





2.2

Digital Transformation

In this report, we have identified the digital worker as someone working in a mainly digital environment.

What we mean by this is that transactions are processed digitally and end up being stored digitally. In these cases, the accounts payable process is digitally transformed. As stated before, this represents 30% of the sample.

We have segmented all others (70%) as non-digital. This is a little unkind to those who have partially transformed their business.

This group can be further segmented into those working:

- with paper where the final storage of the documents is in a paper form: 35% of this 70% segment (around 24% of the total),

- and those who work with paper, but at the end of the process the resulting paper is scanned and stored digitally: 65% of this segment (45% of the total). This latter group is on a pathway to digital transformation.

45% of businesses are on a pathway to digital transformation

Although one of the consequences of going digital is less paper (what we refer to as paper-lite rather than paperless), there is little evidence that in practice being truly paperless in accounts payable is coming any day soon.

33% of businesses print out every invoice they receive via email

E-mail is the most popular (42%) delivery method for invoices as identified in our 2020 survey.
Our 2021 survey identified:
- 25% of digital workers and 10% of non-digital workers, a combined 15% of businesses, never print out an invoice received by email,
- and 37% of non-digital and 25% of digital workers, a combined 33% of businesses, print out all invoices received by e-mail.

85% of businesses still print some of the invoices received via email

This suggests that for some digital workers, the digital process starts after receipt of the invoice in paper-form. This is probably by scanning it into their system, rather than directly from email, which is the model for many, but not all, digital systems. 85% of the businesses surveyed still print some of the invoices received via email.

Only 4% of businesses receive no paper invoices

One of the forces against this is the way suppliers send their invoices. Only 4% of businesses receive no paper invoices. Although, the amount of paper received is definitely declining:
- only 10% of those surveyed receive more than 50% of their supplier invoices in a paper form,
- and 54% receive less than 10% of their invoices on paper.

2.3

Artificial Intelligence (“AI”)

AI is often associated with a fear that robots will replace people in the workplace. An alternate view is that AI will be complementary to human work rather than a substitute for headcount.

24% cannot see AI being much help in their accounts payable department.

This report identifies that 76% of businesses believe at some point that AI will have a role in the accounts payable function. The surprise is that 24% cannot see AI being much help at all in their accounts payable department.

64% of AI implementations in accounts payable complement human work.

AI already has a foothold in accounts payable departments, with 21% having already implemented AI and a further 33% planning to implement AI in the next 12 months. The remaining 22% of businesses see AI having a role but not in the next 12 months. Of those who have implemented AI, 64% have introduced it to complement human work and 36% have implemented it as a substitute for humans.

54% of planned AI implementations in accounts payable will replace staff.

Of those who have plans to implement AI in the next 12 months, 54% plan to replace staff and 46% are planning to use it to complement human work.

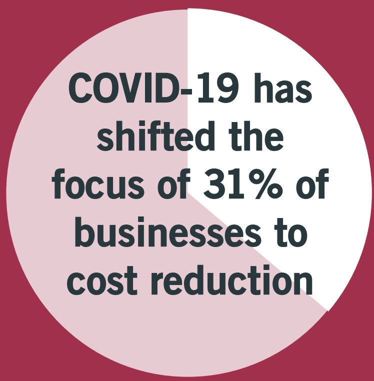
Cost-saving intentions often turn into process improvement reality.

It is not clear that AI projects in accounts payable will result in the wholesale replacement of staff. Combining the results of those who have implemented AI, with those who plan implementations over the next 12 months gives a weighted average of around 50% for complementary and substitute use of AI. The trend suggested by the planned implementations is toward more substitution of labour. This should be considered against the history of many software projects that start out with labour-saving goals but end up with the same workforce achieving greater levels of service.

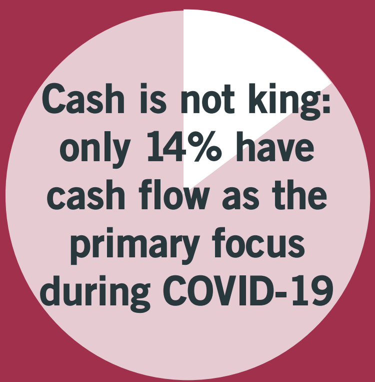
2.4
Primary Financial Metrics in Business Focus

We asked respondents what their primary business focus was pre-COVID-19, and what was it now during COVID-19.

Before COVID-19, the most important metric was Revenue Growth according to 36% of respondents. This has now moved to Cost Reduction according to 31% of respondents.



During COVID-19, we have seen the focus on both Revenue (36%) and Profitability (33%) decline to 26% each. The change in focus is towards Cost Control, up to 31% from 20%, and Cash Flow, up from 9% to 14%.



In times of crisis, you would expect there to be a shift from attention on profits to attention on cash flow. This has not happened to the extent we expected. Though cutting costs does have an impact on cash flow, there is a second important element in the management of working capital, in particular liability management.

A new emphasis on the purchasing and accounts payable functions

The purchasing and accounts payable functions have had an impact both on spend management and liability management. The increased focus on cost-cutting and cash flow suggests that these functions are receiving more attention than before COVID-19.

2.5

Furlough and Accounts Payable

Businesses may be placing greater pressures on the accounts payable function but it is not immune from the impact of COVID-19 on the economy. 41% of business have placed accounts payable staff on furlough

41%

of the respondents to the survey identified that members of their accounts payable team were placed on furlough in at least one of the lockdowns.

53%

identified that none of their team were affected.

6%

declined to comment.

Industry sector a key driver

Intuitively, the most important driver of furlough should be the industry sector.

This is mostly borne out within the Retail and Leisure sector with 71% of finance staff placed on furlough, compared to the Government sector at the opposite extreme with 5% of accounts payable staff placed on furlough.

The bulk of this survey comprises 72% of businesses in the Service and Manufacturing sectors, with little difference in the percentage of accounts payable staff furloughed at around 46%.

Sector	Furlough	Percentage of Sample
Retail and Leisure	71%	7%
Government	5%	9%
Other	27%	13%
Service	44%	45%
Manufacturing	48%	27%
Total	41%	100%
Service and Manufacturing	46%	72%

53% of large Service and Manufacturing businesses have furloughed accounts payable staff

The size of the business has not been a factor in the overall sample. The 41% result is consistent when analysing both medium (50 to 249 employees) and large (more than 250 employees) businesses. However, there is a difference for the Service and Manufacturing businesses when size is taken into account. Accounts payable staff are much less likely to have been furloughed in medium-sized businesses (39%) than large businesses (53%).

3.0

Accounts Payable and Purchasing Results Indicators

We identify here four key results indicators that are applicable to the accounts payable and purchasing processes. These are:

a) Making payments on time,
b) Timely and reliable management accounts,
c) Visibility of forward commitments,
d) Supplier Trust.

3.1

Paying in Good Time

There has been much criticism in the press of large companies and their failure to pay their suppliers, particularly smaller ones, in good time.

The criticism of being a late or slow payer relates to both not paying within agreed terms and enforcing terms that make this first goal achievable but result in very slow payments.

The purchasing function tends to agree the purchase terms. The accounts payable function is responsible for putting the company in a position to pay supplier invoices within those terms.

Government measures

The Government has responded to the criticism primarily with voluntary measures and a regulation that was designed to provide visibility of the payment practices of large companies.

Prompt payment code now sets a 30-day standard for payment terms

There is a voluntary code of practice, the Prompt Payment Code, in which companies sign up and agree to pay their suppliers on time. Recently, the standard for good payment practice terms has reduced from 60 days to 30 days. The signatories are likely to be those who are already committed to timely supplier payments, so this makes us question the Code's effectiveness in reducing late payments.

3.1

Paying in Good Time

Payment Practice and Performance Regulation

A much tougher reporting regime was set up under the Payment Practice and Performance Regulation ("PPR"). This required large companies to report to a public website on their payment practices. The reporting required is for payment performance every 6 months, within 30 days of the end of each period, based on a timetable set based on each company's year-end. The theory behind the regulation is that suppliers can see the payment practices of large companies and choose whether to do business with them. Large companies face a reputational risk, as the data is open to both the public and the press. To ensure timely reporting, a system of both company and individual director fines is in place. Reporting has been poor and the fines for late or non-submission do not seem to be enforced.

196 companies late (144 chronically late) reporting payment practices in the last 6 months

In the period August 2020 to February 2021 196 (13%) of reporting companies were late reporting, with 114 of these late by more than 100 days. This figure excludes those who fail to report, which is more difficult data to capture. The inability of some companies to report on time is a statement to the lack of focus on measurement of performance in the accounts payable function. In the extreme case, for example, the surprise demise of Patisserie Valerie was not such a surprise when it was identified that they were unable to report the statistics required by PPR.

Those reporting support the view there is a payment problem:
Late payment: On average 30.3% of invoices paid late
Longest average standard payment terms: 79 days
Average time to pay: 37.4 days

Late payments can only really have two causes:
- The business chooses to pay late, or
- the business does not have the people, processes and systems in place to enable them to pay on time.

The second reason is really a subset of the first, as firms must have chosen not to put the process in place to pay on time.

There has been a 4% drift towards poorer payment practices in the last 12 months

In this survey, we asked respondents to rate their business on paying invoices on time. 74% rated themselves as excellent or good, compared to 78% a year ago.

Not just an issue in large businesses

The performance of the 101 large business and 109 medium-size business covered in this survey shows there is no significant difference to the above results.

These ratings appear to be at odds with the picture painted by PPR reporting for large businesses.

If the perception of the payment performance shown here compared to the reality reported by large businesses has the same rose-tinted view for medium business, then all the criticism levelled at large businesses concerning payment practices is likely to apply equally to medium-sized businesses.

3.2

Timely and Reliable Management Accounts

One of the current popular themes in management speak is “data-driven decision making”.
To apply this, timely and reliable management accounts are a prerequisite. These provide the data to enable an understanding of the financial impact of business decisions in good time.

71%

of businesses publish their monthly management accounts within 10 working days

Some businesses (20%) achieve a really fast turnaround, publishing their management accounts less than 3 working days from month-end.

Most, 51% (71% including the 3 days above), publish their management accounts within 10 working days.

7%

fail to publish their monthly management accounts within 20 working days

As each working day passes, the relevance of the information in management accounts diminishes. There must be a point where the exercise has little value and is just a job performed for its own sake. We suspect this point falls shortly after 10 working days, well towards halfway through the next month.
The remaining 29% represented those who took up to 20 working days (16%) and those who did not complete their accounts within 20 working days (7%).
There were 6% of respondents who could not answer this question.

79%

using monthly management accounts for budgetary control publish within 10 working days

Management accounts are particularly important where they are used as the only point of control against budget, as is the case for 58% of respondents. We would expect to see those respondents who monitor performance in this way to be more focused on the speedy reporting of monthly management accounts.
There is some evidence that this is the case with 79% reporting within 10 days, compared to 71% above.
That still leaves 16% of those reporting waiting more than 10 working days after month-end to know how they are performing against budget.

3.3

Visbility of Forward Commitments

An insolvency partner at a major firm responding to a survey we carried out at Accountex in May 2019 stated that in his view 80% of businesses that fail do so because of poor working capital management.

On top of cash required for working capital management, forward commitments also require cash cover. Liability management includes both liabilities already recorded in the books, as part of working capital, and commitments made through the purchasing process.

94% of businesses complete cash forecasts

In cash forecasting, it is therefore critical to identify the sources of funds that will cover these liabilities and commitments.

94% of respondents reported that they completed cash forecasts.

4% do not prepare them.

2% were unaware of whether the process occurred in their business.

62% of businesses complete fully integrated cash forecasts

The gold standard cash forecast incorporates data about liabilities from accounts payable and purchase commitments from the purchase process.

62% of respondents met this gold standard.

15% of businesses complete partially integrated cash forecasts

The silver standard cash forecast incorporates data about liabilities from accounts payable and identifies commitments in other ways.

15% of respondents met this silver standard.

17% of businesses use modelling approaches

A bronze award goes to those who prepare cash forecasts but use models that neither incorporate data from their accounts payable process or their purchasing system. The act of preparing the forecast is itself a process that helps, but the lack of integration to actual business activity introduces some risk.

17% met this standard.

3.4

Supplier Trust

The majority of sustainable businesses are reliant on good relations with their supply chain. COVID-19 has exposed the false assumption that each business is independent. Many businesses have discovered that they are highly reliant on the goodwill of their supply chain and the support of their community.

Supplier trust is a wider issue than supplier payment practices. The full legal relationship is defined by contract terms and conditions, but again there is still something missing if payment and contract terms are the sole basis of a supplier relationship. A failure to comply with the terms can break supplier trust but other positive actions beyond terms are required to build Trust.

COVID-19 has brought out the best in some companies. We see for example Morrisons, using £60m of its cash reserves to pay its suppliers quicker to ease the financial pressure in their supply chain.

Others have shown the worst sides of business. Some have tried unilaterally to walk away from purchase commitments, for example Edinburgh Woollen Mill, while others tried to exploit the support offered by the Government as noted by repayment of Furlough and loan scandals.

COVID-19 brought out the best in a minority of supplier relationships

Our findings are:
29% tended to put their suppliers first and did not engage in competitive tendering for goods and services. Of these, **37%** were prepared to take special measures (like Morrisons) to support their supply chain in these tough times.

Competitive tendering is a significant factor in supplier relationships

68% of our sample used competitive tendering:
69% of these were prepared to show some loyalty/ preferential treatment to existing suppliers.
31% of these (21% of the total) made supplier choices based on the tendering result alone.

There are distinct differences between the behaviour of large and medium-sized business in this domain. Of the medium-sized businesses, **36%** are far more likely to put their suppliers first compared to **22%** of large businesses.

Of these, **39%** of medium-sized businesses and **33%** of large businesses were prepared to take special measures (like Morrisons) to support their supply chain in these tough times.

Large Businesses rely more heavily on contractual relationships

29% of large businesses are far more likely to rely solely on tendering than medium-sized businesses (12%).

4.0

Performance Indicators

We often frame a discussion about the performance of a process in three broad categories.

Efficiency

The ability to use fewer resources to perform the same task. Concerning revenue growth, this is known as the ability to scale the business without adding back-office costs.

Visibility

The ability to see across the process and know what is going on. In accounts payable, this relates to knowing the status of any supplier invoice throughout the process. In comparison to the other extreme of only knowing you have a supplier invoice when it arrives approved on the ledger.

Control

The ability to process accurately and make choices. Less control is normally associated with fraud and error and having to react to supplier requests for payment, rather than having the approved transaction ready for payment when it falls due. Control also refers to being able to operate within budget and to have an effective procurement process.

4.1
Efficiency

We have used four indicators of efficiency here:

The time it takes to process an invoice from receipt until it is approved and ready for payment on the ledger.

The media used. Is the same media used throughout the process, or is time consumed converting the media?

The ease of use of the system. Is there friction for individuals who use the system?

Does the efficient performance of one part of the process impair another part of the process? Are the processes and systems joined up?

4.1.1

Processing Time

We asked respondents how many working days it took to process supplier invoices from receipt to being approved and ready to pay on the ledger.

The majority process supplier invoices within 10 working days

70% of respondents identified their business performed the process within 10 days, and **33%** of these completed the process within 3 working days.

In total, **23%** took more than 10 working days, with **29%** of these unable to process supplier invoices in less than 20 days.

As we have seen with Payment Practices and Performance Regulation reporting, a number of businesses do not have the capability to either measure or estimate this process effectively. In this survey, **7%** were not able to identify how long it took to process supplier invoices.

Those working digitally perform the process faster

Those working digitally outperformed the non-digital businesses, with **75%** performing the process within 10 working days.

Complexity is a factor: Digital does not appear to improve things here

The complexity of the process is a factor here. We see that those with the most complex approval processes, including both the requirement for matching and approval of invoices are less able to complete the process quickly.

64% of respondents using complex matching identified their business performed the process within 10 days.

There was only a marginal performance improvement at this level of complexity between digital and non-digital systems.

A simple process does convert to faster processing

In contrast, more of those who operated a simpler process only requiring approval, and no matching, were quicker at processing invoices.

80% of these supplier invoices are processed with 10 working days for goods (86% for services).

4.1.2
One Media

Transforming the media that carries supplier invoice information, introduces another step in the process.

Overall, 85% still print out some of the invoices they receive digitally.

Paper is declining as a medium here, as we saw in the background section, with only 10% of those surveyed receiving more than 50% of their supplier invoices in paper form.
Yet we also saw that 37% of non-digital and 25% of digital workers print out all invoices received by email.

Guestimate: 19% of businesses have eliminated paper from processes they control

Digital storage of supplier invoice records has now arrived as the primary method of document storage:

- 76% of businesses store their supplier invoices in digital form.
- 24% store them in paper form.

Of those who end up storing their invoices in digital form:

- 6% receive more than 50% of their invoices as paper.
- 25% never print out the email attachment.

This suggests, at best, 19% of businesses have a journey that starts digital and ends digitally.

For many businesses, the process remains fragmented

For many, the process remains fragmented, with 25% of these digital companies always printing out the invoices received as email attachments.

Of those that end up storing their invoices in paper form:
18% receive more than **50%** of their invoices as paper.
57% always print out the invoice attachment when received from the supplier.

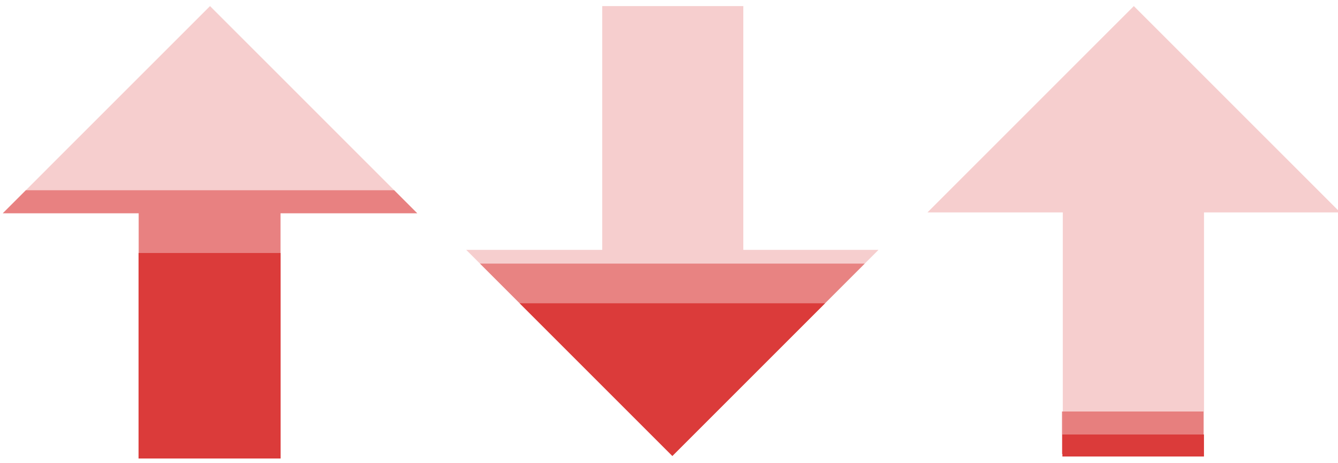
This suggests that in some cases the digital journey goes further than receipt of the invoice, for example the email is forwarded to somebody in the organisation who approves it and at that or some later point (for example, when paid), the invoice is printed out to be stored in paper form.

4.1.3

Ease of Use

An efficient process needs to be both efficient for the purchasing and accounts payable departments as well as the rest of the business.

Finance staff believe the purchase process is getting easier to use



58% of the businesses believed their purchasing process was easy to use. (up from 43% in 2020)

34% of the businesses believed their purchasing process was difficult to use. (down from 55% in 2020)

9% did not use purchase orders or did not know. (up from 3% in 2020)

Compliance with the process is higher in digital environments

There was no discernible difference in the split between digital and non-digital workers regarding the ease of use of the purchasing process.

However, there was a higher compliance rate amongst digital workers, with very few able to work around the system.

3% of digital workers found the system difficult to use and used workarounds to bypass it.

10% of non-digital workers found the system difficult to use and used workarounds to bypass it.

It needs to be understood that these are the views of finance staff. Staff from other departments often have a far less charitable view of how easy these systems are to use.

4.1.4

Joined Up Processes and Systems

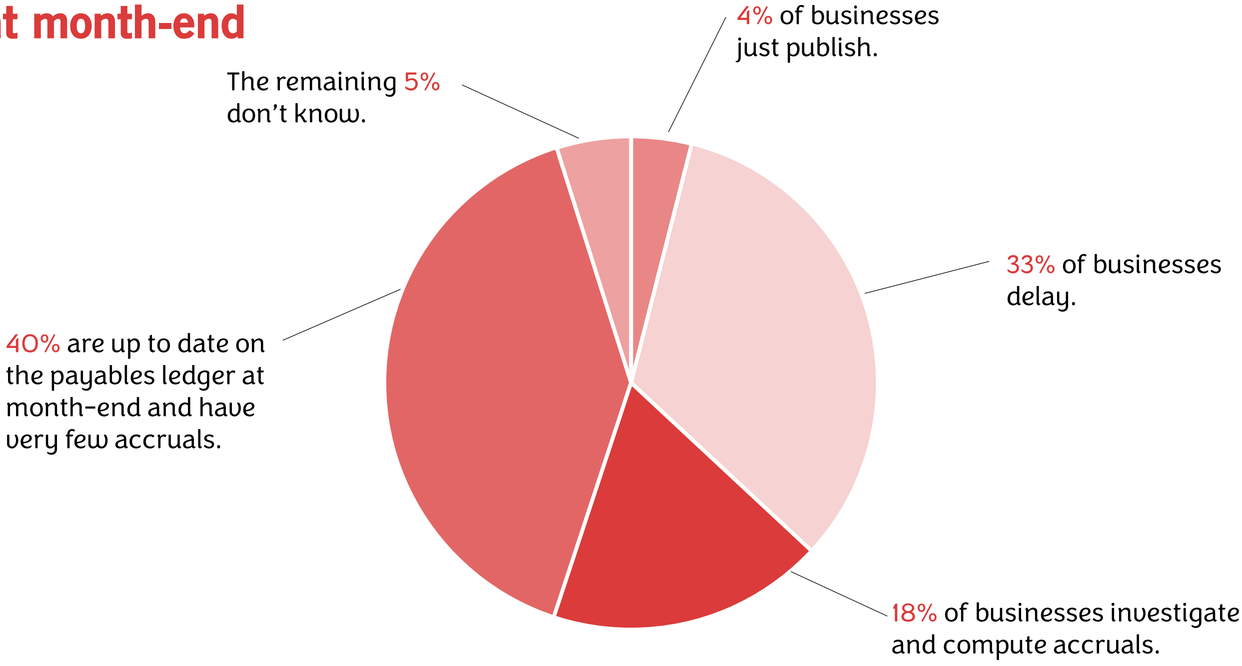
There is an interdependence between the timeliness and accuracy of management accounts and the availability of processed and approved transactions on the purchase ledger.

The gap between processed and unprocessed invoices is normally covered by accruals. Accruals can be estimates, but where systems are joined up, will be based on actual activity.

Where purchasing, receiving and accounts payable systems are integrated, businesses who operate a three-way match can compute accruals for those items received not invoiced automatically.

Without this integration, accounts staff have three choices, to publish as-is, to leave the ledgers open and delay the management accounts until supplier invoices are processed, or to investigate and compute accruals to fill the void.

The majority of businesses do not have an up to date purchase ledger at month-end



Those up-to-date publish their management accounts faster

The businesses that have an up-to-date purchase ledger or invest in staff to produce accruals report more quickly (within 10 working days):

76% of businesses with an up-to-date purchase ledger.
89% of businesses that put resource into making accruals.

Of the business that delay, **59%** are able to complete their accounts within 10 working days of the close.

4.2
Control

Accountants are classified on the Myers Briggs scale as ESTJ or ISTJ personality types. While they can be either extroverts or introverts, they typically have strong sensing, thinking and judging functions. They rely more heavily on facts than theories, are consistent, observant, deeply dutiful, caring, conscientious, dedicated, and honourable.

Put another way, they like to be in control and do not like fraud, errors and omissions, operating outside budget, or processes and systems that are not effective.

4.2.1

Fraud

Many frauds involve the disbursement of money for the wrong reasons. These frauds tend to emanate either from accounts payable processes or the payment process itself. In this survey, we asked, “how confident are you that your accounts payable process systems are robust enough to prevent fraud”.

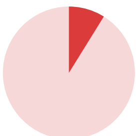
A significant majority of businesses are confident that fraud controls are robust

COVID-19 does not seem to have changed the view of business on fraud. A significant majority believe their accounts payable processes and systems are robust enough to protect the business from fraud:

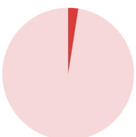
83% expressed complete confidence in their systems in February 2021.

The less confident businesses have drifted slightly towards having more concern

Those neither confident nor unconfident have shifted camps in a small way since January 2020, with 3% moving into the confident group and 3% into the not confident camp:



11% were neither confident nor unconfident (down from 17% in 2020).



Those concerned about how robust their accounts payable process was at dealing with fraud increased to **6%** from 3%.

There is more concern in the Government about how companies deal with fraud. The Brydon report on audit recommended that auditors should add fraud to the audit scope following some high profile corporate failures involving suspected fraud. This is now moving towards legislation with the BEIS now proposing new fraud reporting requirements for auditors.

Digital processes increase confidence

This survey shows that those working digitally were more confident than those working non-digitally:

92% of digital workers were confident.

80% of non-digital workers were confident.

4.2.2

Error - Miscoding

The concept of externalities describes the impact of one action elsewhere. In purchasing and accounts payable, errors in account coding, including allocation to the incorrect department, cost centre, or project have an impact on:

The reliability of the management accounts,

> **5%** of businesses admit such errors are often missed and only identified once the management accounts have been published.

The work performed by accounts staff in preparing management accounts, additional rework required on account coding,

> **45%** have few errors: Error correction considered an exception.
>
> **35%** expect errors: correction considered normal accounting work.

Only **13%** of businesses report no coding errors from the accounts payable function.

Room for improvement for digital suppliers

Of this metric, those working on paper outperformed both the other non-digital segment and the digital segment, when it came to no or only a few corrections:

75% of
paper workers

53% of
digital workers

55% of other
non-digital workers

This may be explained by the democratisation arising from digital processing where the owners of budgets code the transactions rather than the accounts staff. This may be a learning rather than a digital issue.

However, this looks like an area that requires more work from the providers of digital systems.

Medium-sized companies are less prone to coding errors

The medium-sized companies were less prone to errors, with many respondents saying no or few errors were reported.

65% of medium-sized business reported no or few errors.

51% of large businesses reported no or few errors.
The trend in favour of those working on paper again showed here **78%** of medium-sized business and **67%** of large businesses.

4.2.3

Error - Duplicate Payments

Duplicate payments generally arise from errors in the accounts payable function but may sometimes be an error in the treasury function.

Besides being embarrassing for the business, with the associated reputational damage and impact on supplier confidence, they involve quite a bit of rework with both internal correction and external activities to recover the misplaced funds.

Zero defects claimed by a sizeable minority

27% of businesses claim to never make duplicate payments.

More businesses working digitally never make duplicate payments.

30% of businesses working digitally never make duplicate payments.

20% of businesses working with paper never make duplicate payments.

A majority of businesses make occasional errors

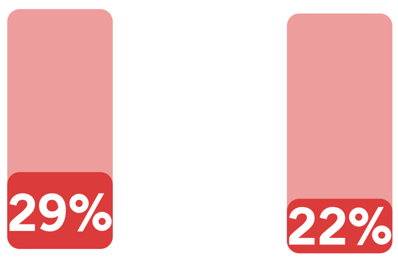
41% of business occasionally make duplicate payments, combining these results suggests duplicate payments is not a significant problem for 68% of businesses.

More frequent errors suggest a process and/ or system problem

20% make duplicate payments a few times, and **8%** frequently.

Paper-based systems more prone to error

Businesses working with paper-based systems are most likely to make this error more than occasionally. The error rate being:



working with paper.

working digitally.

Large paper-based businesses more prone to error

The large businesses that still use paper are more prone to error more than occasionally. The error rate being:

The error rate for large and small business is similar to the overall rate of **22%**.

4.2.4
Budgets

Budgetary control is the overarching control most businesses use to tell whether they are on track with their short-term plans.

This survey supports this view with 90% using budgets. This is consistent with our January 2020 report.

Those not using budgets may be following a random walk, but more likely are just using last year as a reference point and do not prepare a budget.

Government has concerns about the budget process

There is much debate about the relevance of planning. Some argue that the exercise itself carries more value than the result of the exercise. A recent report from the House of Commons Public Accounts Committee "Lessons from major projects and programmes" on capital projects identified a terrible result in Government but also identified **75%** of private sector projects overrun budget. The conclusion was to recommend fuzzy budgets starting with a wide range and then narrowing, as the passage of time reduced uncertainty as the project developed.

This approach lends itself more to using budgets as a reporting tool rather than a transactional control.

Budgets are primarily used as a reporting tool

58% of businesses use budgets as a reporting tool. They wait until their management reports are produced until comparing performance against budget.

The weakness of this approach is that commitments are made without understanding their business impact. This is not known until results are produced. This lag between real-time information and historic cost reporting hampers timely action when variances occur. This lag is worse where there is a significant gap between the purchase requisition and order release and the financial commitment showing up in the management accounts.

Moving budgetary control to the point of purchase commitment

Many businesses have recognised this problem and moved up the point of control to the moment a transaction is committed using purchasing systems. **32%** of businesses use budgetary control at the commitment stage.

Dependency on effective purchasing systems

The ability to exercise budgetary control in this way requires effective purchasing systems.

68% of businesses using transactional budgetary control say their purchasing process is effective.
47% of businesses who do not use transactional budgetary control say their purchasing process is effective.

Large companies more likely to use the budget control transactions

Large companies use budgetary control more than medium-sized companies at the commitment stage. **40%** of large businesses compared to **24%** of medium-sized companies.

4.2.5

Effectiveness of the Purchasing System

Most businesses in this report used purchase order matching as part of the approval process for supplier invoices.

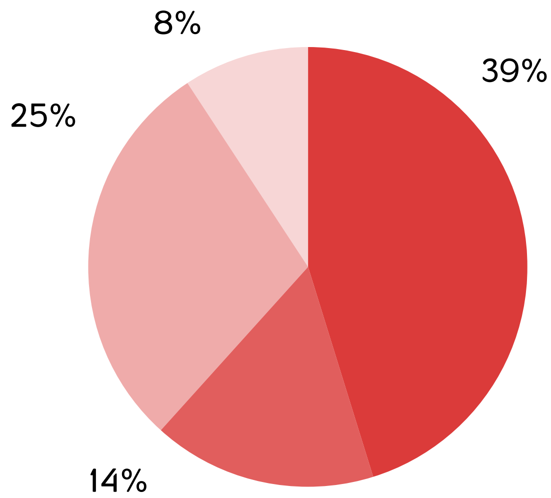
Purchase orders have an important role in the accounts payable process

90% of invoices for goods required purchase order matching as part of the invoice approval process.
88% of invoices for services required purchase order matching as part of the invoice approval process.

Around half of businesses believe the purchase process can be improved

Just over a half (51%) of businesses believed, pre-COVID-19, their purchase process was working well, with 47% believing the process was broken or needed improving (2% did not have a view).

39% believed the process needed some immediate investment.
14% believed the process was broken.
25% believed it needed improvement.
The remaining 8% believed it needed improvement but were prepared to live with the problems (up from 6% in 2020).



COVID-19 has stressed the effectiveness of the purchase process

COVID-19 changed this picture, with the same businesses reporting:

A drop from **51% to 46%** believing the process worked well, and **50%** (up from 47%) believing the process was broken or needed improving (not satisfied).

The majority **(80%)** of those moving from satisfied (5%) did not see a need to invest to solve the problems identified during COVID-19. One possible explanation for this is because they see the problem as transitional, and therefore only an issue during COVID-19.

4.3 Visibility

We use the term visibility to describe the ability to see across the process and know what is going on. The consequences of a lack of visibility affect both efficiency and control.

Time spent re-performing tasks and elongated processes for responding to supplier questions damage the efficiency of the accounts payable process.

A lack of audit trail impacts both control and the efficiency of external and internal audits and can lead to additional rework to ascertain what happened, for example, why money had been spent on a project.

4.3.1

Doing Things Twice

Frequent requests for copies of a supplier invoice are a sign that a business has little visibility over the supplier invoices it receives and their stage in the accounts payable process. A customer who frequently asks for a copy of invoices is a red flag to a supplier. This is an indicator that the customer is out of control and a credit risk (could run out of cash).

Though, not impossible, it is very unlikely a supplier will fail to invoice its customers. As a supplier, there is little more irritating when chasing an overdue invoice than, at this late stage in the process, to be asked for a copy. This irritation is compounded when the customer requests a copy be sent to the same email address the original invoice was sent to.

Businesses appear to be out of control

24% Those frequently or always asking for a copy of an invoice are telling their suppliers **they are out of control.**

16% **frequently** ask for a **copy of an invoice.**

8% **always** ask for a **copy of an invoice.**

Paper-based systems the worst offenders

Those working with paper are most likely to ask for copies. of those working with paper

33% **ask for a copy of an invoice.**

Of these:

21% **frequently** ask for a copy,

12% **always** ask for a copy.

COVID-19 has made things worse

19%
In January 2020, of businesses **frequently or always** asked for a **copy of an invoice.**

COVID-19 has seen an **increase** in both:

those **always asking for a copy** from

5% to 8%

and those **frequently asking for a copy** from

14 to 16%

4.3.2

Response to Questions

In accounts payable, having access to the right information at the right time inspires confidence in suppliers. This is only possible if the process is visible.

54% of businesses are able to answer supplier questions in real-time.

Digital systems offer greater visibility

Those working digitally outperform this, with **62%** able to respond in real-time.

Having to investigate burns both the supplier's and the customer's time

The response "we will have to get back to you on that one" signifies that the respondent does not have easy access to the required information. Time spent investigating the problem impacts efficiency and the level of service businesses can provide to suppliers.

33% of businesses have responded to supplier queries with "we will get back to you on that". Not all digital systems enable a real-time view.
29% have to investigate before being able to get back to the supplier.

An unacceptable service? Let's wait to see if it turns up

For some businesses, there is no visibility of the process until the invoice turns up on the accounts payable ledger.
10% of businesses have no visibility of the progress of an invoice until it arrives approved on the ledger.

Not all digital systems provide visibility throughout the process. The result is similarly 10% for businesses working digitally.

Solving the problem by creating a copy invoice problem

The lack of process visibility contributes to the need to request another copy of an invoice.

49% of businesses who frequently request copy invoices have to respond "we will get back to you", compared to 33% above.
12% of businesses who frequently request copy invoices have no visibility of the progress of an invoice until it arrives approved on the ledger compared to 10% above.

4.3.3

Supply of Information to Third Parties

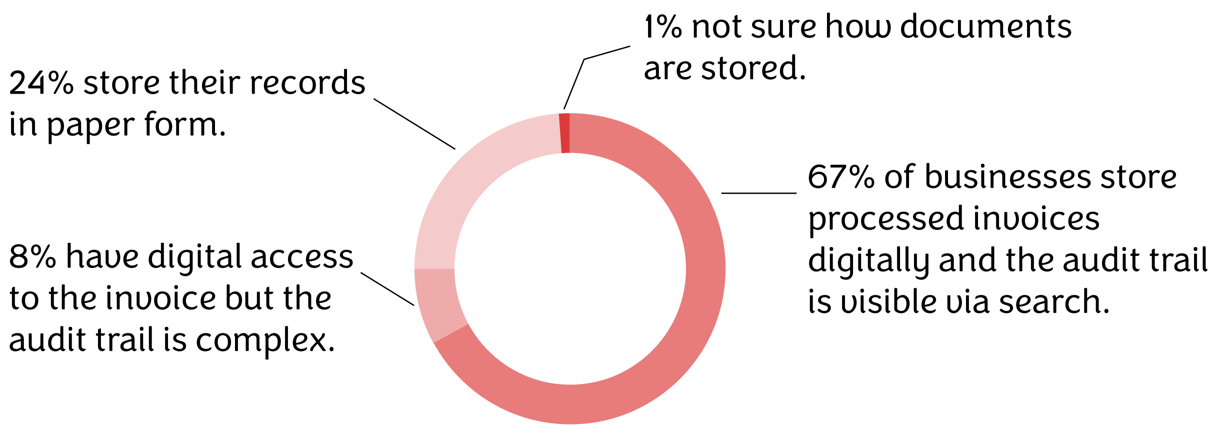
Once a supplier invoice has been processed, a record needs to be stored for six years. That record will need to be referred to at least once, when it is paid, and often more frequently. The person approving a payment may want to see the invoice and also the audit trail, who approved the invoice, the receiving information, the ordering information, etc.

Internal users may want to see the invoice and audit trail, for example:
- Those preparing management accounts,
- Those carrying out project costing reviews,
- Internal audit and/or analysis staff,
- Those preparing corporate tax or VAT returns,
- Those preparing annual accounts.

External users may want to see the invoice and audit trail, for example:
- External financial auditors,
- Cost management consultants,
- Landlords and tenants working with a property company.

Those with digital access to this information will gain faster access than those searching physical filing cabinets for this information.

Digital storage by 75% of businesses



The time saved retrieving a digital document compared to a paper document may be negated if the audit trail is complex and more research is required. A completely digital process (30% of respondents) ensures that all documents are stored, whereas a hybrid paper-to-digital or a paper-only system faces the risk of losing paper in the process, with the additional risk of physical damage to the paper or loss each time it is retrieved.

Paper storage is declining

There is evidence that the storage of paper documents is declining. The survey in January 2020 identified that 28% of businesses stored documents as paper (This has now dropped to 24%). However, the majority of this change has been at the expense of the audit trail. 8% of documents are stored with a complex audit trail compared to 4% in January 2020.

Conclusion

The lockdowns resulting from the COVID-19 pandemic have stress tested the purchasing and accounts payable processes and systems in many businesses.

On one measure, the “work from home if you can” test on businesses has been an overall fail, with a majority of staff having to attend the office some of the time during the lockdown periods. This result varied significantly for businesses working digitally, with the majority able to comply with the work from home requirements.

On another external measure, the ability to pay suppliers on time, most businesses rank their performance as good, and yet Government statistics suggest a deterioration in performance. The objective Government measure represents another failure. This difference between the perception of good payment practice, and the less favourable reality, existed pre-COVID-19 as identified in our 2020 report.

As expected in a crisis, we see the internal business focus shift from revenue growth to cost-cutting, placing more emphasis on those responsible for spend management and cost accounting and, in turn, the processes and systems that underpin these activities. In the internal measures of spend management and cost accounting, we see those using digital purchasing and accounts payable systems to deliver their processes outperform those who rely on paper-based or hybrid digital-and-paper systems.

This report shows the trend away from paper and manual systems towards digital and automated systems will be accelerated because of the lessons learned from the pandemic.

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 is a Microsoft Gold Partner as an Independent Software Vendor (ISV). The company and products, therefore, meet the stringent requirements of the Microsoft Partner Program introduced in 2010.

Invu partners with a range of software vendors such as ABBYY, a data capture, recognition and extraction tool provider whose FlexiCapture technology sits at the heart of many Invu solutions and IRIS, that supplies Invu Document Management to around 20% of the top 100 UK practices as the IRIS Accountancy Solutions document management product of choice.

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