

## White Paper

# Purchase card reconciliation

## Boosting Purchase Card ROI through tighter business integration

### Introduction

The impetus to maximise internal efficiency drives has never been greater, placing new emphasis on purchase card (p-card) roll-outs in both the public and private sectors.

Despite being well recognised for their power to shorten procurement cycles and reduce administration for high-volume, low-value purchases – which can add up to around £30 to each transaction (often costing more than the item being purchased) – p-card deployments have stalled in many organisations because of concerns over reduced spending control.

An absence of spending visibility, the back-to-front approvals process and the increased burden on finance departments seeking to balance the books has overshadowed the numerous benefits of p-card programmes for many organisations. This is unfortunate, given the administrative cost-savings promised by purchase cards if deployed appropriately.

Yet new software is now available which promises to overcome the limitations of original p-card programmes, providing rich management information about spending on purchase cards, giving line managers more responsibility for approvals, and reducing the burden on finance managers as they seek to reconcile their monthly accounts. By joining up p-card management with core financial systems, to provide a rich, holistic view of organisational expenses, this new approach also addresses the strict auditing requirements of Sarbanes-Oxley and other regulatory mandates, while taking local government organisations closer to their cost-efficiency target.

### The business case for p-cards

Some 20% of an organisation's spending by value and often as much as 80% of all purchases - is made up of small, ad-hoc transactions. Processing, managing and reporting on these small-value transactions using traditional means (through the laborious purchase order and invoicing method) is a heavy and expensive administrative burden, bumping up the cost of the goods being bought.

P-cards, sophisticated business credit cards, have sought to fill this gap, offering a simplified, cost-effective purchasing, approval and payment process, averting the need to raise purchase orders for numerous small items. This speeds-up the purchasing process whilst cutting down on the need for costly administration.

Additional benefits include the ability to set limits on card usage, for example by user, type of goods (e.g. office stationery, travel expenses, etc.), or by particular supplier. The cards can also provide detailed management reporting by line item: product code, item description, quantity and cost information can all be included and VAT-compliant reports can be produced.

The need for petty cash is reduced, users are given greater control over their budgets, can ensure compliance with preferred supplier lists and can track their spending more easily. Suppliers, meanwhile, benefit from prompt payment (typically four days, compared with up to 90 using an invoicing process), encouraging them to pass on 'prompt payment' discounts to customers.

The case is extremely compelling.

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## P-card evolution and take-up

Almost half of all businesses now use cards for small one-off payments, according to Global Treasury News. As a result, organisations are beginning to extend the benefit of using the cards to larger, recurring payments. When p-cards were first introduced almost a decade ago, most transactions were small, one-time or occasional purchases. Today, some 50% of businesses (of all sizes) are turning to p-cards to pay for regular purchases, from computers and software, to business travel.

## Problem areas

Yet, while the appeal of p-cards is undisputed, and the keenness to extend their use is clearly growing, a number of organisations have remained restrictive in their programme rollouts, as finance and other senior managers have become troubled by the limitations to their existing systems.

At a cultural level, companies have found it difficult to let go of the control previously enjoyed through the purchase order process, where approval for spending was gained up front. At the back end, systems have not been as joined up as finance and line managers might like, while information reporting has varied in its quality and depth. Over-reliance on banks to provide management information breakdowns has delayed the reconciliation of accounts and clouded visibility of spending, threatening cash flow.

Over 90% of merchants are still providing only basic-level information to the banks about card transactions, with the result that individual purchases are not being itemised to show what has been spent where, and which items have incurred reclaimable VAT. A small shop selling paint can see little incentive to spend over £500 to upgrade its EPOS terminals to support more detailed (Level 2/Level 3) reporting information.

Meanwhile, accounts departments have suffered when individual cardholders have failed to check off payments against their monthly paper-based card statements, creating an additional workload for the finance department as they seek to verify amounts, and code items by category and supplier, to reconcile their monthly accounts.

As well as threatening their ability to balance the books, this has implications from a regulatory compliance standpoint. Sarbanes-Oxley in particular has increased the requirements for advanced reporting and fraud detection within expense reporting solutions, so managers are understandably nervous about the potential to fall foul of the measures expected.

## The risks of manual processes

While purchase cards introduce new efficiencies by bypassing the typical requisition, purchasing, receiving and accounts payable processes, the practice introduces a range of manual-based processes which are then required to reconcile all p-card spend across an organisation.

This introduces a number of risks. While one area of the business becomes more efficient, inefficient processes are being introduced elsewhere:

- card-holders are called upon to log their expenditure, usually manually)
- reconciliation of paper-based records is performed manually
- physical records are approved manually
- general ledger (GL) journals are generated manually

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These high levels of manual input leave considerable margin for error, and generate reams of new paper at a time when the majority of organisations are keenly trying to enhance their environmental credentials:

- paper-based statements are received from the card issuer in different formats, from each different issuer
- card-holders now keep a manual log, either collecting receipts or maintaining a spreadsheet
- physical documents are routed to different managers (and sometimes offices) for approval
- all of these paper statements and spreadsheets need to be kept, incurring storage costs.

## Non-compliance with procurement policy

Although the introduction of p-cards is aimed at improving procurement policy, in most instances they hinder its implementation. A manual p-card process is reliant on individuals adhering to corporate policy, which hamper potential economies of scale.

Meanwhile, the manual nature of the process makes it impossible to do intelligent reporting. Answers to 'who, what, how much, where?' questions could allow an organisation to spot trends, reduce maverick spending and make significant cost savings.

In addition, providing an auditable trail to illustrate that purchases are made for legitimate reasons is extremely difficult, and becomes more cumbersome as the use of purchase cards is extended across the organisation.

All of these hurdles have conspired to cause many organisations to apply the brakes to broader p-card rollouts across their organisations, stifling the potential benefits they could be experiencing if the convenience of card usage was more widespread.

## Purchase card reconciliation – a new integrated approach

With tighter integration to existing accounting systems and better management information reporting, organisations can overcome all of the potential teething problems associated with the adoption of purchase cards.

Until recently, promoters of the p-card have sought to address these problems in a couple of ways.

Banks have provided 'free' software (embedded in their fees) to provide management reports for finance managers. Yet the disadvantages of relying on banks' own capabilities are numerous, including:

- being locked-in to using that bank for future purchase-card activities
- reliance on the bank's timeframes and delivery systems for accessing crucial management information
- lack of integration with the organisation's own financial management systems
- failure to provide granular enough information to enable vat to be reclaimed.

Another alternative has been third-party, hosted services, costing in the region of £30,000 a year. These offer to provide rich reporting on p-card data as a value-added service, but the costs of such services mount up over the years, and there is still no integration with the company's own core business systems to join-up the loop with other (purchase order based) aspects of expense management.

To reinstate real internal control and visibility over spending, organisations need to be able to integrate and consolidate their p-card activities within their broader financial management systems.

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## Benefits of an integrated approach

Implementing a p-card reconciliation solution which integrates with your core accounting system provides significant benefits.

### Cost savings

Not only will savings be realised by an enhanced procurement policy, but also cardholders, approvers and finance will make significant time savings. No re-keying of data is required, relevant accounting codes are automatically assigned, reconciliation is automated and an automated solution removes the need to file away paper-based statements, saving time as well as storage costs.

### Evolving procurement policy

An organisation can choose the best card suited to the business (or multiple cards if required) and can change cards when necessary to ensure the best terms are secured. A solution should be configurable to apply purchasing policy rules, ensuring compliance, and have the ability to work with a range of 'transaction' cards, including purchase cards, credit cards and fuel cards.

### Improved management information

Significant benefits can be realised here with such a wealth of information. Data is available irrespective of how many different cards a company uses, or how many times it changes providers, and all data held in a single repository means enhanced management reporting with cardholder and transaction level data. The procurement department is able to monitor trends and act accordingly to benefit from further cost savings, and access supplier spend information.

Automation of this process not only ensures the accuracy of this data, but also provides a level of detail otherwise unachievable.

Finance benefit from early visibility of committed expenditure by enforcing card logging before statements are received, assisting cash flow.

### Improved audit trail

With demands on corporate governance, an integrated approach will provide full, auditable trails of purchase card spend. Receipts can be scanned and attached to statements for finance to use in VAT reporting. Online disputes can be tracked providing an audit trail and online authorisation is maintained with the ability to track the process online.

### Finance department efficiencies

With renewed confidence in the expense approvals process, finance departments are free to concentrate their energies on higher value purchasing.

### Greater take-up of P-cards

With compliance, control and efficiency issues taken care of, the organisation is then encouraged to take up p-card programmes more broadly across the enterprise, further speeding up purchasing, clawing back around £30 per transaction in saved administration costs, and attracting more 'early payment' discounts.

### A greener track record

Reduction of manual and paper-based processing takes the organisation closer to its environmental goals and improves its 'green' credentials.

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The benefits of implementing an integrated solution internally, meanwhile, are numerous:

- cost-efficiency, as the software is bought through a single one-off payment (versus a similar fee renewable each year with a hosted solution)
- the independence and internal control of owning and specifying your own system
- seamless integration with the business's core finance systems
- no lock-in to individual banks' proprietary systems.

## Conclusion

As compliance demands are tightened, advanced p-card management offers an easy way for organisations to derive greater benefits and savings from their existing investments in purchase card programmes, while driving up internal efficiency.

At a time when transparency and visibility are hot items on the agenda, an integrated approach offers a means for finance departments to exceed expectations while reducing their own workloads. Opportunities like this are rare in the current climate.

*As part of the Advanced Business Solutions Smart Business Suite, Purchase card reconciliation (PCR) is fully integrated with its range of financial management systems. This, coupled with the ease of implementation, ensures a rapid return-on-investment.*

Advanced Business Solutions' PCR system provides out-of-the-box integration with companies' core finance systems to ensure complete granularity of purchase information, matching the right accounting codes to each item purchased, by looking up and assigning supplier codes to users' purchase logs, so spending can be categorised and detailed VAT breakdowns can be extracted.

With this solution, the onus is shifted onto line managers to ensure that cardholders have checked off their payments, and have approved these, so that finance staff are able to trust the data that has now been automatically fed into their systems.

By removing the burden on already overstretched finance departments, while securing managerial control over low-value transactions, the system paves the way for broader adoption of purchase cards across the organisation, increasing the associated business gains.

## About Business Solutions

Advanced Business Solutions, an Advanced Computer Software plc company, provides leading integrated business applications and services that enable public, private and third sector organisations to retain control, improve visibility and gain efficiencies whilst continually improving corporate performance. It's award-winning software systems comprise core financial management, procurement, human resource and payroll systems, integrated with a range of collaborative, document management and business intelligence solutions. It also provides managed and bureau service options.

Advanced Computer Software plc is the UK's leading supplier of software and IT services to the health, care and commercial sectors. It comprises 3 main divisions and has 7000 customers and 800 staff worldwide.

## For more information

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