

How to Ace Your Accounts Payable Audit for AP Automation

Having your operations run smooth is integral to keeping your staff and clients happy- That includes being able to Ace any Audit thrown your way. Here we will show you how Accounts Payable Automation can help.

The Plate IQ Editorial Team

Accounts payable audit. Does that phrase make you cringe?

There could be a couple reasons for that...

Maybe it's because you don't fully grasp how beneficial an AP audit is to your restaurant's financial health....

Or maybe it's because you're still in the dark ages of manual accounts payable, which meant your last audit had you rifling through stacks of dusty paperwork in the back room where you store mountains of documents.

An accounts payable audit helps protect your restaurant from fraud, theft, inefficiency, and human error. It checks every nook and cranny of your financials to protect your restaurant.

And AP automation will make your next AP audit so much easier. For example, digitized documents available at the click of a button enable you to prepare for your audit without wanting to pull out your hair.

In this ebook we'll cover

- What is an accounts payable audit?
- Why do I need an accounts payable audit?
- 6 Accounts payable audit objectives
- How to prepare for an AP audit
- Accounts payable audit procedure and checkpoints
- How AP automation makes audits easier
- Benefits of digitized records



What is an AP audit?

An accounts payable audit is an in-depth examination of an organization's accounts payable records conducted by an independent third-party auditor.

An audit analyzes whether your transactions are correctly recorded and whether those recordings present an accurate view of your restaurant's financials.

The goal of an AP audit is to ensure the accuracy and liability of a business' accounting information by systematically reviewing all the checks and balances within its accounting system.

Accurate and reliable accounting information is vital for a number of reasons.

This info is not only used in reports for owners, regulators, and other outsiders. It's also necessary for your clients in making sure internal operations run smoothly and efficiently.



The Sarbanes-Oxley Act requires all public businesses to have a yearly accounts payable audit performed by an independent 3rd party.

Source: govinfo.gov

Why do I need an AP Audit?

There are plenty of reasons to conduct an accounts payable audit. An AP audit helps you fight against fraud and inaccuracy and helps you identify inefficiency.

A properly conducted Accounts Payable audit is critical for the financial health of your business, for analyzing the performance of your accounts payable department, and to ensure the success of your restaurant.

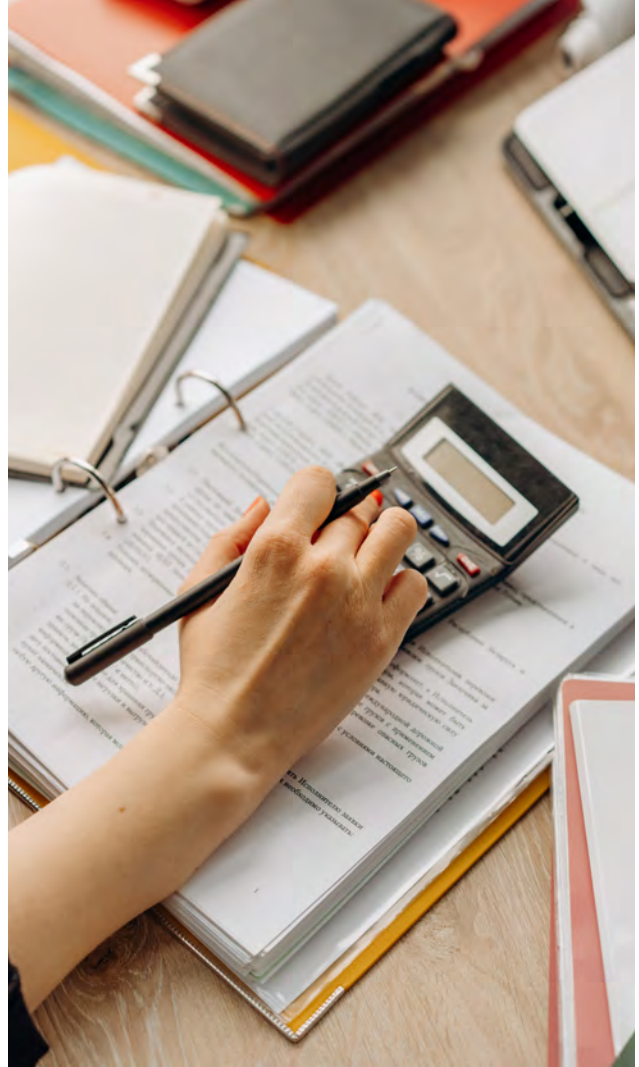
And for many US-based companies, they're not optional.

The Sarbanes-Oxley Act, established in 2002, requires all public businesses to submit records yearly to a third party for an external audit to protect shareholders, employees, and the public from accounting errors and fraudulent financial practices

Private companies that apply for credit must also have routine audits of financial transactions conducted by a third party.

Whether it's a legal obligation or not, an accounts payable audit is a good business practice to help you stay on top of your clients financial activity.

Here are a few ways an audit can improve security, efficiency and help find possibilities for cost reduction:



Double-checking the control over vendor invoices and the approval process helps identify areas where the financial burden/control rests on too few shoulders. For example, purchasing personnel shouldn't also handle or approve invoices to prevent and detect errors and theft.

Reviewing invoices for possible cash discounts and noting due dates brings to light opportunities to take advantage of any available discounts.

Comparing the terms of sale, prices, and list of goods received on vendors' invoices to purchase orders and receiving reports plus all totals prevents theft, fraud, and embezzlement.



6 Accounts payable audit objectives

As you move toward automating your club's financial operation, make sure to get the most bang for your buck. Here's a checklist of "must-have" features:

6 Accounts payable audit objectives



#1

Completeness

Do your accounts payable balances reported on the balance sheet include all payable transactions that have occurred during the specified accounting period? Are all accounts listed?

#2

Existence

Do those accounts payable balances reported on the balance sheet actually exist at the reporting date? Are they real accounts?



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Rights and Obligations

Does your company actually have the right to the stated assets (cash) on the balance sheet to meet your obligation (liability) of paying the vendors listed in accounts payable?

#2

Accuracy

Were all purchase transaction amounts listed in your accounts payable correctly recorded? Manual data entry is, after all, prone to a degree of human error.





#1

Validation and Allocation

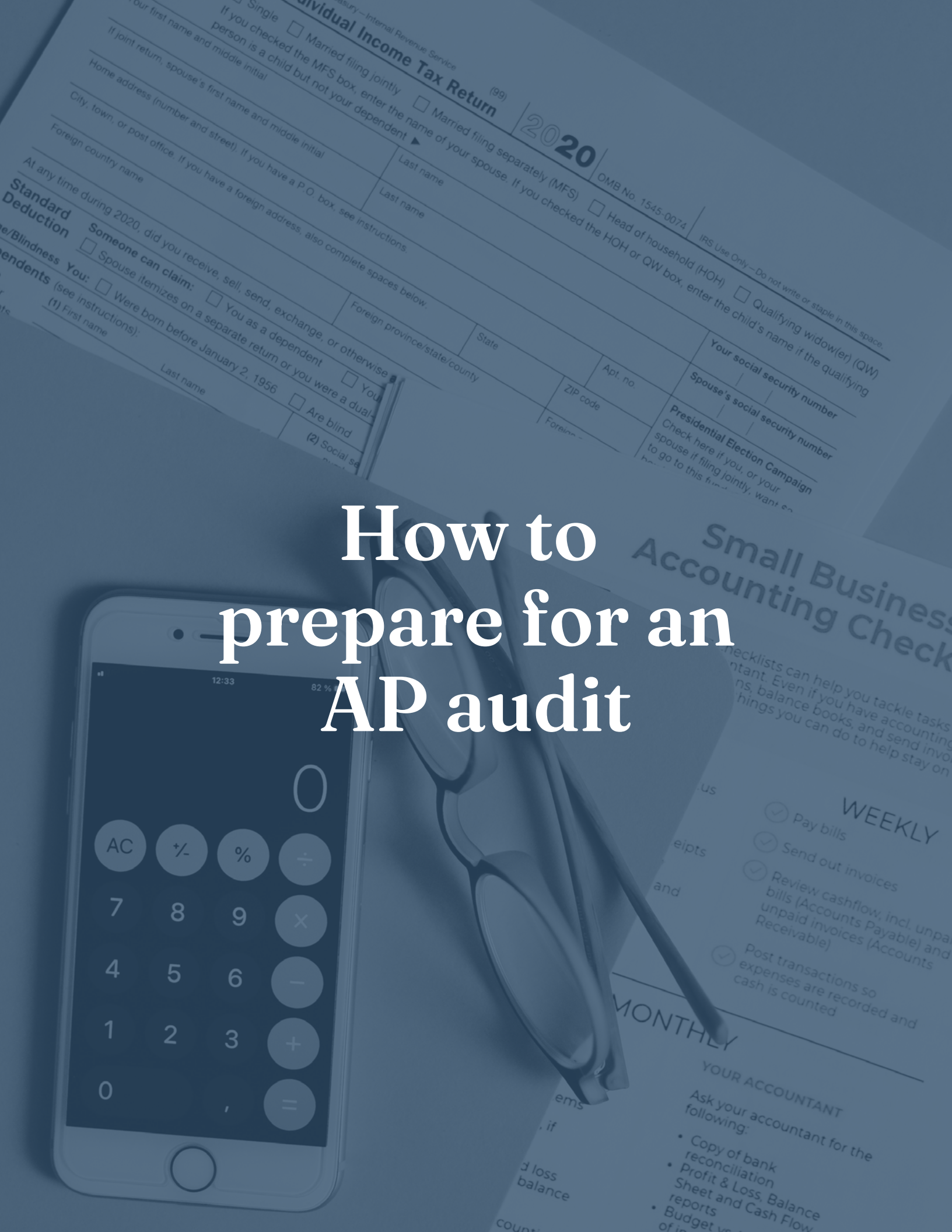
Are all figures (assets, liabilities, and equity) recorded on your financial statements based on the actual value, and have they been allocated correctly?

#2

Presentation and Disclosures

Have all the appropriate information and necessary disclosures been included in your financial statements? And are they clear and easy to understand?

How to prepare for an AP audit



The truth is, preparing for an accounts payable audit is daunting. You'll have to provide detailed info about all your financial transactions. And you won't know everything needed until the audit gets started.

But don't despair, this section is designed to help you prepare for your next AP audit so you can be confident heading into the process.

If you've digitized your paperwork and moved to an automated accounts payable system, like Plate IQ, you'll be a step ahead in producing your documentation.

We've put together a list to guide you in gathering your documents to get prepared.

It's a large list with a lot of documents.

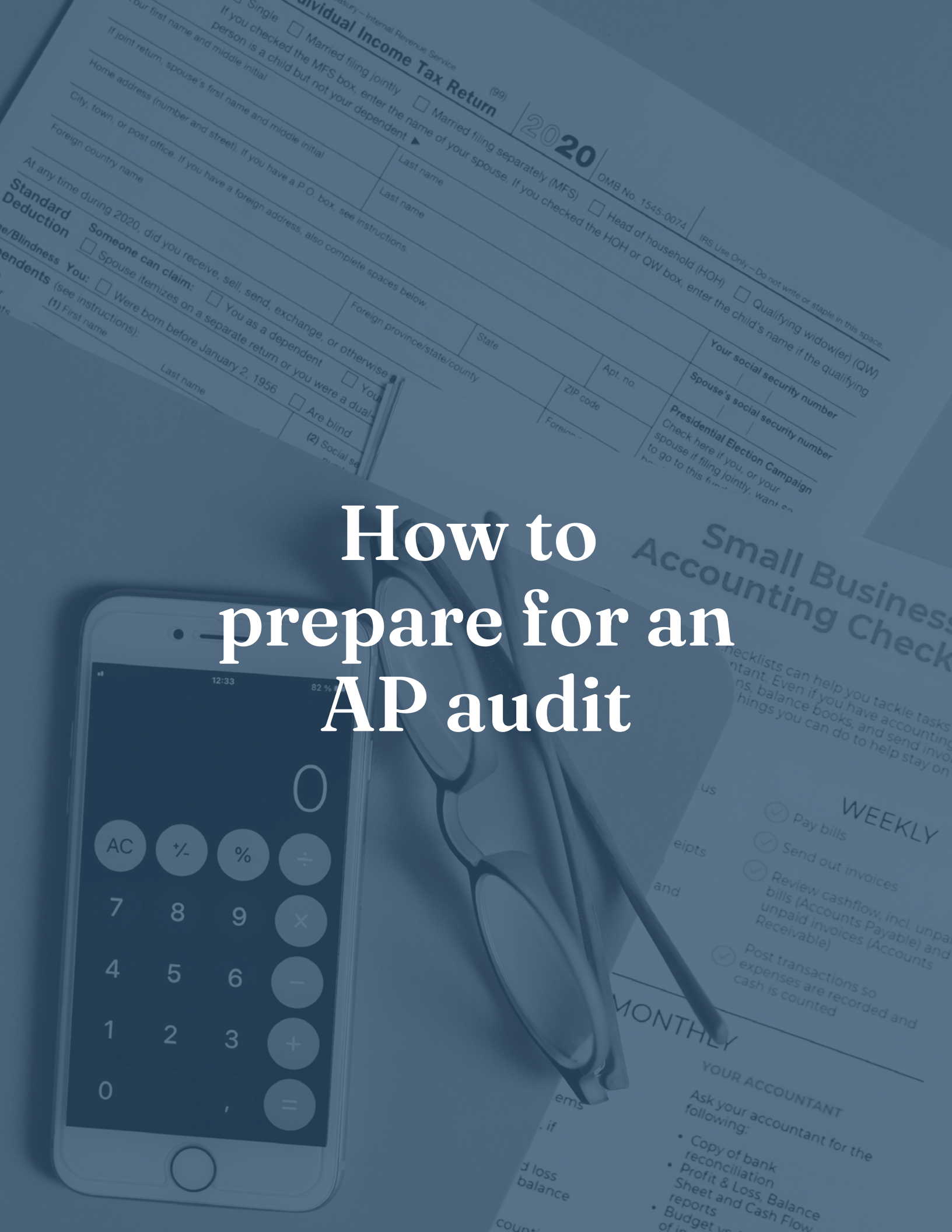
But spending time before your audit begins gathering these documents will save you unnecessary stress trying to scramble to locate paperwork during the audit.

Keep in mind, digital documentation has become an integral tool in managing a restaurant business because it allows you to process data quickly, accurately, and efficiently.

You're able to quickly locate most documentation with the click of a button.

- Invoices & purchase orders*
- Contracts*
- Check requests & other transactional info*
- Financial statements (Profit and loss, general ledger detail, journal entries, cash flow statement, balance sheet statement, and trial balance)*
- Bank statements*
- Lease agreements*
- Internal accounting procedures manual*
- Most recent fiscal year budget*

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Accounts payable audit procedure and checkpoints

Your auditor has a specific accounts payable audit procedure and a checklist to follow in order to complete a thorough audit. The accounts payable audit checklist below is important to ensure all records are analyzed and that any errors, fraud, or weaknesses are uncovered.



#1

Review Balances

Simply put, follow the evidence. This involves comparing balances from various periods to check for any unusual increases or decreases. Your auditor is looking for a balance history that makes sense — no major jumps or drops without evidence to back up the significant change.

#2

Analyze Balance Posting Procedure

Analyzing the balance posting procedure will tell the auditor about the efficiency of the controls over this area. Auditors compare the amounts recorded in the company financial statements to the records maintained by the AP department. Do they match? Or is there a discrepancy between the two posting procedures to be addressed and improved?

#3

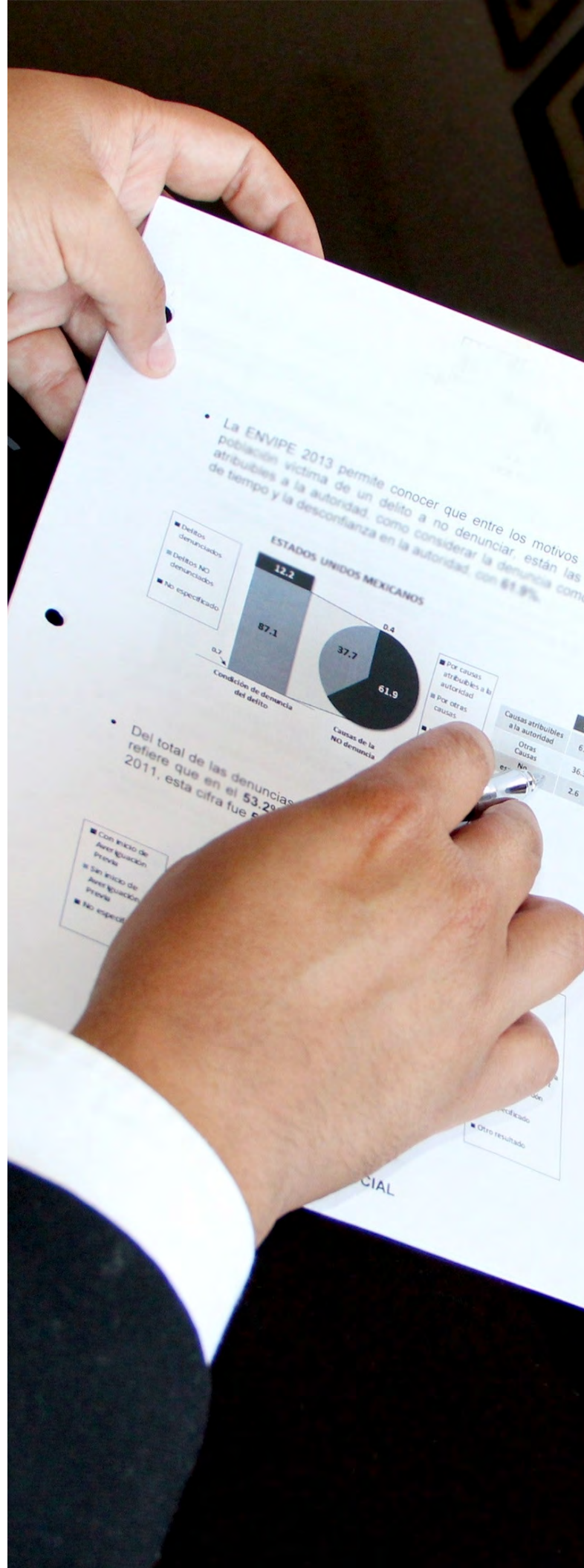
Increased Transparency

Your auditor will compare the current year to the previous year's audited accounts closing balances to verify that the current year's account balances are correct.

#4

Low-Cost Data Storage

Recalculating the figures from the general ledger and individual vendor balances verifies accuracy. Confirming all vendor accounts & balances is a way to double-check that the total figures are correctly calculated.



#5

Year-End Accrued Expenses and Aging Report

Accrued expenses on the financial statement require backup with the corresponding invoice attached for support. An aging report will tell your auditor how much money is owed to vendors and which AP accounts are over 30-60-90-120 days.

#6

Fraud Check

A study by the Association of Certified Fraud Examiners found that businesses lose an average of 5% of their annual revenue every year due to fraud. Your auditor will randomly select various vendor recorded figures and use an audit trail to verify that those transactions have occurred for genuine purposes (actual purchases) by matching recorded payments with the supporting documentation (invoices and receipts).



Businesses lose an average of **5%** of their annual revenue every year due to fraud

Source: Association of Certified Fraud Examiners



#7

Easy Auditing

Your auditor may check for use tax to ensure proper taxation. Use tax is sales tax assessed on out-of-state taxable purchases that'll be used, stored, or sold in the state where you run your restaurant only if no tax was collected in the state of purchase. For example, if your restaurant is in South Carolina and you buy glassware in Georgia and aren't charged sales tax at the time of purchase, you'll owe sales tax in South Carolina. Your auditor will check on your use tax payments and confirm they're recorded accurately.

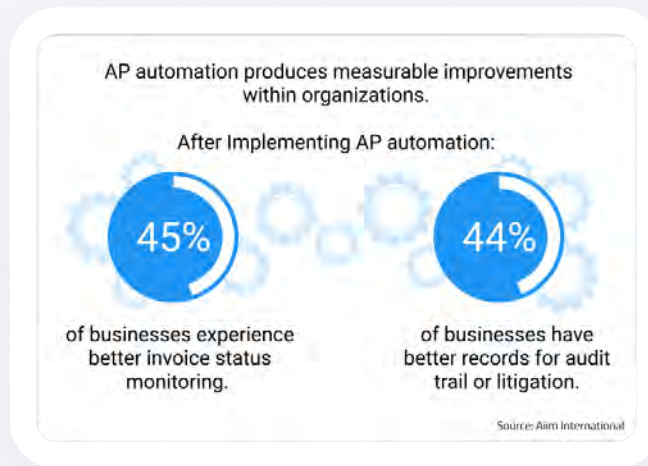
#8

Integration with Existing Systems

Part of an accounts payable audit is requesting confirmation from vendors to verify the listed amounts owed by your restaurant to those vendors. This is a third-party confirmation that's highly relied upon for verification.



AP Audits Made Easier with Automation



Traditional AP audits are cumbersome. It involves sifting through stacks of paperwork, expense reports, old receipts, etc. A manual audit is inefficient, costly, and time-consuming.

This is especially true if your business has a high volume of transactions, like a restaurant.

Luckily, most of the repetitive AP audit tasks have been automated through various types of accounts payable software. AP automation improves the speed of auditing and reduces the stress of searching for all of your necessary documentation.

Typically, restaurants have one external audit per year, and AP automation streamlines the process. In addition, AP automation requires document digitization, so finding and correcting anomalies is easier, and financial statements and procedures are readily accessible for analyzing.

Why do I need an AP Audit?

In today's digital age, we already know there are many benefits to digitized records. According to a study by AIIM International, organizations that automate AP experience measurable improvements. 45% state improved invoice status monitoring is a top benefit, and 44% cite better records for audit trail or litigation as a major advantage.

So, if we were to break down what those improvements entail, we would find ourselves with four overarching benefits. These include reduced costs, easy of accessibility, greater ability to maintain compliance, and an overall increase in visibility. A yearly accounts payable audit is crucial to detecting fraud, identifying and correcting errors, and flushing out inefficiency.



“ We’re always looking for automation opportunities. We want to cut down the time we spend on mundane tasks that can be automated so that we can offer that more advisory level of service. It’s just helping us with this complete paradigm shift in the industry. ”

Katie West, Client Accounting Services Manager, MCM CPAs

#1

Reduced Costs

Digitized records reduce long-term data storage costs in a number of ways:

- Storage and transportation — Electronic document management virtually eliminates these costs, directly affecting your bottom line.
- Filing and locating documents — Reducing staff labor hours required for these time-consuming and tedious tasks saves you money.
- Repurposing space — Use less space for filing cabinets and more space for your staff and customers.

#2

Accessibility

Digital documents allow for easy access to all necessary documentation (financial reports and records, invoices, receipts, etc.) during an AP audit.





#3

Compliance

Digitized documentation supports staying in compliance with necessary laws and regulations in a number of ways:

- Creates an audit trail.
- Automatically flag suspicious or unauthorized modifications to data
- Index documents for easy search and retrieval.
- Security controls to ensure your auditor is viewing authentic, reliable information.
- Supports consistent implementation of compliance requirements through automated records management.

#4

Accessibility

Digital document management allows you to keep track of documents and their status. As well as gather info on workflows and how documents are being processed.



The Complete AP Automation Platform

Get your demo at www.plateiq.com



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