BEST PRACTICES

A Collection of Best Practices for:

Finance

Includes Detailed Best Practices for:

- Accounts Payable (AP)
- Accounts Receivable (AR)
- Budgeting & Forecasting
- Controller Group (Accounting & Reporting)
- Expense Management
- Internal Audit & Compliance
- Payroll
- Tax
- Treasury

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The AP Group manages and pays all of the company's bills. They are responsible for keeping the lights on and ensuring that all creditors (vendors) are paid in full and on time. They also process invoices, cut checks and manage relationships with creditors. It is important, from a vendor management perspective, to ensure that debts are paid ontime and in full to avoid default and strained relationships with third party suppliers.

Accounts Payable (AP)

Finance Best Practices

Best Practice 1-A

⚜ Ensure Clear Communications Between the AP Group and Other Company Departments to Improve Work Standardization

Standardize all work activities within the Accounts Payable (AP) Group to ensure that all necessary information is collected before payments are made. To accomplish this, communication between all involved departments is highly recommended. Furthermore, standardizing work activities reduces future low-value tasks and possible rework.

Typical Practice (the Status Quo): Work only with the information provided by the organization's departments. Direct the Accounts Payable (AP) Group to not interrupt the work of other departments but instead to figure things out by themselves. Any resulting rework must be dealt with immediately.

Benefits of this Best Practice: A lack of communication between the Accounts Payable (AP) Group and other functions within the company increases the amount of rework that needs to be accomplished (duplicate payments, incorrect information on payment checks, incorrect invoice or check values, etc.). Standardization of work activities (including increased communication between company functions) and a reduction of low-value tasks ensures that all tasks are completed correctly the first time and enables the AP Group to perform other necessary tasks.

✛ **Related KPIs:** Cash Conversion Cycle, Invoices Processed per Employee, Cost per Invoice

Best Practice 1-B

⚜ Enforce Strict Vendor Invoice Submission Guidelines to Improve Quality of Submitted Information

Enforce strict guidelines on the submission of vendor invoices. A thorough checklist and tracking system should be used to ensure that vendors submit the necessary information. They also accelerate response times if an error or inconsistency is found.

Typical Practice (the Status Quo): Return invoices received not in good order (invoices with missing or incorrect information and/or documentation) immediately to the vendor to correct and resubmit. Delays are unfortunate but are to be expected.

Benefits of this Best Practice: Vendor invoices that are not in good order may (invoices with missing or incorrect data and/or documentation) cause long delays in the fulfillment of the invoice (delays as long as 1 week, for example) because they must be returned, corrected and resubmitted. Providing a checklist and a strict tracking system for the vendors to follow reduces the number of returned invoices and accelerates invoice processing and payment.

✛ **Related KPIs:** Invoices Processed per Employee, Cost per Invoice, Vendor Payment Processing Cycle Time

Best Practice 1-C

Use Detailed Vendor Error Reports to Proactively Reduce Errors

Use detailed vendor error reports to notify vendors of errors by frequency and type. Vendors can use the detailed information in the report to reduce their errors by making adjustments to their practices.

Typical Practice (the Status Quo): Expect invoices or documentation to contain some level of vendor errors. Once errors are identified, ensure that the invoices are returned for correction and resubmission. Vendors are responsible to fix the errors they make.

Benefits of this Best Practice: Vendor errors may cause long delays in the fulfillment of the invoice because it takes time for invoices and documentation to be returned, corrected and resubmitted. Detailed vendor error reports notify vendors of encountered errors and allow them to reduce errors proactively. Vendors who are not aware of the details behind the errors they make may find it difficult to reduce those errors across the board.

Related KPIs: Vendor Payment Processing Cycle Time, Vendor Invoice Error Rate, First Time Match Rate

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