UNIT 10 ISSUE MANAGEMENT, RISK MANAGEMENT AND CONTROL

Structure

10.0 OBJECTIVES

The objectives of this unit is to familiarise the learners with:

- day to day issues encountered in a P2P process and their possible resolutions; and
- risk management and controls for managing P2P processes.

10.1 INTRODUCTION

In the previous units, we have seen how various processes in the P2P cycle function. We have also seen, what is critical to the performance of these processes.

In this unit we will deal with day to day issues that are encountered by a team supporting a P2P process in an outsourcing environment.

We will also look at how these issues can be addressed and taken to resolution or settlement. In many cases these issues are beyond the control of the P2P team members. However, their service levels and performance quality have an impact due to this issue. This means that the operating environment of a P2P process is very challenging. Different teams involved in P2P process faces different issues, each one posing an unique challenge.

Let us discuss these issues taking each team involved in P2P process one by one.

10.2 TYPICAL ISSUES IN A P2P PROCESS

10.2.1 Issues in Vendor Setup/Maintenance

1. The Authorisation for the vendor setup is not proper.

Vendor set up and maintenance requests must be properly authorised. If proper authorisation is not there, dummy vendors can be created in the vendor master or the details of existing vendors can be modified without proper authority by the team responsible for vendor maintenance. This can lead to fraudulent transactions in the P2P cycle.

In case proper authorization is not provided with the request, it should be returned to the client requesting proper approval. If the issue is not closed within the stipulated agreed service level turnaround time (TAT) the matter should be escalated as per the escalation matrix provided.

(**Note:** Escalation means a communication to higher authorities to seek their intervention in resolving the matter)

2. The information provided for vendor setup is not complete.

The vendors have to provide the information about them to enable the vendor setup team to set them up in the vendor master.

Vendor setup should not proceed until all the mandatory information about the vendor has been provided. The vendor setup team should contact the vendor and ask for the missing information. Meanwhile, the request should be put on hold and the client manager should be informed about the matter.

In some cases, depending on how the client has implemented the vendor setup process, you may be required to contact the client and ask him to get the information from the vendor, instead of contacting the vendor directly.

Additionally, any information submitted directly by the vendor should be on vendor's letterhead to avoid any mistakes or frauds taking place at a later stage.

3. The bank account details for the vendor are not properly verified.

Bank information of the vendor is a very important part of vendor setup. This information should reach the vendor setup team directly from the vendor to avoid tampering of these vendor detail by client or by any other person. To verify the bank account details, the vendor setup team usually asks for a scanned copy of a cancelled cheque from the vendor's account or a letter from the vendor's banker stating the details of the vendor's bank account with them and properly authenticating the same.

In this case, the vendor maintenance/set up team should directly contact the vendor and ask for a confirmation of bank account details. Meanwhile, the vendor setup/ maintenance request should be kept on hold. Any information submitted in paper form should be on vendor's letterhead and signed by the vendor.

10.2.2 Issues in Invoice Processing

1. The invoice has not been received at the scanning station

The vendor calls the help desk asking for when a particular invoice (sent by him a few days ago) will be paid. In case the invoice processing team is not able to trace the invoice, it has probably not been reached the scanning facility. The vendor should be asked to send another copy of the invoice, through mail, fax or email.

Some companies have a policy of not processing a duplicate invoice (to avoid making duplicate payments). In this case a certified copy of the invoice may be obtained from the vendor so that the invoice processing can start on the basis of this invoice.

2. The scanned invoice is not clear

If the scanned invoice is not clear, its contents will not be properly visible to the invoice processing team members to process it any further.

In this case the scanning team should be asked to scan the document again and upload the scanned invoice again in another batch of documents.

The information could also be unclear on the scanned invoice due to the fact that the colour of the paper on which the invoice is printed and the colour of the ink with which it is printed may not contrast much so the scanner is not able to recognize the printed characters properly. In such a case the invoice may need to be returned to the vendor with the request to submit on a different paper/using a different ink.

The invoice processing should start only after a clear scanned image of the invoice is available.

3. The details on the invoice do not match the Purchase order

The invoice is compared with the purchase order for the following:

1. The list of items their quantities and price stated on the PO and invoice are the same
2. Shipment terms mentioned on the invoice matches the PO
3. Payment terms mentioned on the invoice are the same

The various issues that may crop up as a result are:

Oversupply: In case of an oversupply of material by a vendor, the procurement department needs to be notified. Based on the PO modification the oversupply items can be processed and paid. e.g. if 10 printer toners were ordered and the vendor supplied 12 instead, then procurement department need to be notified of the supply of extra 2 toners, based on the PO modification of, these toners can be processed and paid by invoice processing team.

a) **Under supply:** In case there is an under supply of goods e.g. 12 cartons of a material were ordered and 10 cartons were delivered. In this case the GRN will indicate that 10 cartons were supplied and invoice will also indicate the same amount. Hence the invoice will be cleared for payment automatically.

b) In case the price for the material quoted on the invoice is different from the one on the PO the client usually has some threshold limits defined in its policies. The threshold limit can be understood with the help of the following example:

   The client may define the variation in price to be tolerated up to 2% of the invoice amount or \$50 whichever is minimum. Let us say that the total invoice value is \$ 3000. In this case 2% of the invoice amount is \$60 and the absolute threshold limit is defined as \$50. We consider the minimum out of these values i.e. \$50. In case the invoice amount exceeds PO amount by \$50 then it is returned to the vendor. In case the amount is less than the threshold defined, then the invoice is cleared for payment.

c) Shipment terms indicate who bears the risk of the goods during transportation and the freight costs e.g. FOB (Free on Board) indicates that the vendor's responsibility is completed when the goods are loaded for shipment and subsequent costs and risks (e.g. cost of transportation, risk of pilferage or damage to the goods in transit) are borne by the buyer, where as if the shipment terms are CIF (Cost Insurance and Freight) then the risk and the cost of transportation are borne by the seller.

   Usually shipment terms are decided when the master contract is negotiated with the supplier and are captured as part of the vendor setup. They get reflected on all the POs that are raised against the supplier while the contract is in force.

   In case the contract terms are CIF and invoice billed is FOB then the dispute as to who bears the cost of transportation will arise.

   In case the invoice details state a different shipment terms than the ones indicated on the PO then the invoice needs to be returned to the vendor.

d) Payment terms indicate when the payment is due, and if any early payment discounts are provided, e.g. 1/15 net 30 indicates that the buyer can avail a 1% discount on the invoice if the payment is made within 15 days of the invoice date otherwise the complete invoiced amount is payable within 30 days. The payment terms are also negotiated with the vendor as part of the master contract. If the invoice carries a different set of payment terms then a clarification is sought from the vendor and if need be a new invoice is requested. Some clients have the policy of using the payment terms that are reflected in their own version of the contract, irrespective of what is stated on the invoice. In that case the client usually sticks to the payment terms in their records.

4. The details on the invoice are not complete.

In case the details on the invoice are not complete and some information is found missing, the invoice needs to be returned to the vendor along with the letter asking him to submit a fresh invoice with missing details included.

5. There are extra charges on the invoice

The extra charges usually are for transportation and insurance. This is usually agreed between the buyer and the seller as to who will bear the cost of transportation and insurance, through the terms stated on the PO. In case the extra charges due to such costs are within a threshold limit then the invoice can be cleared for payment otherwise it has to be sent to the buying manager to seek his approval.

6. The invoice has been put on hold, pending clarifications from the buyer (client) but no response received yet.

In case the buying manager has not acted on the invoice which has been sent to him/her for clarifications, then send him/her the reminders as per the communication plan. If still no response is received then the matter needs to be escalated within the client's organisation as per the escalation matrix.

7. **Invoice mentions a Purchase Order but it cannot be traced.**

   Usually, if the purchase order cannot be traced by the invoice processing team, it is because it has been sent to the vendor without proper approval within the client organisation. In this case the PO number needs to be traced with the help of the procurement group and when traced it needs to be approved on a priority within the client organisation, so that invoice can be processed. In case the PO is still untraceable (due to incorrect PO number printed on the invoice i.e. a case of bad PO), then the details need to be confirmed with the vendor and invoice may need to be submitted with correct details again by the vendor.

8. **Vendor for the invoice does not exist in the system (in case of non-PO invoices)**

   The invoices submitted without having a purchase order are called non-PO invoices. In this case vendor set up team needs to be informed to set up the vendor. The invoice processing can proceed after the vendor has been setup in the vendor master in the ERP.

   The vendor setup team needs to work with the client to get the necessary information from the vendor and approvals from the client manager for the vendor to be setup.

   Once the vendor is setup, the invoice can be taken up for payment processing.

9. **The buyer/authoriser disagrees with the amount invoiced and withholds approval.**

   The invoice needs to be returned to the vendor. In case the buyer approves a partial amount, pay only the approved amount and raise a debit note for the remaining amount e.g. out of the invoiced amount of $ 650, the buyer may approve only $ 580 to be paid. In such a case you should pay only $ 580 and raise a debit note for the balance $70 and send it to the vendor along with the information about the reason for raising the debit note.

10. **Invoice is on hold but the due date has arrived**

    If the due date for payment of the invoice has arrived and the invoice is still on hold (the reasons can be that the invoice may not have been approved or the GRN may not have been created), then the reminders should be sent to the concerned manager. If adequate number of reminders has already been sent then the issue should be escalated as per the escalation matrix.

    The invoice will continue to remain on hold till the issue is resolved.

Bank details of the vendor are not available to make payment to the vendor.

While processing an invoice, the bank account details stated on the invoice are compared with those available in the client's vendor master. If the details are missing in the client vendor master, then the invoice is put on hold and the vendor maintenance team is notified to contact the vendor to get the relevant details (as per the established procedure) and update the bank account information. Once the vendor maintenance team updates the information it sends the notification to the invoice processing team and the invoice that had been put on hold can be taken up for processing further.

Credit note incorrectly processed as invoice

This issue is fairly common in a P2P process. When credit note is processed as an invoice, you end up paying the vendor, the money which he was to return to you. In such a case, we should ask the vendor for a refund in cash. In case refund is not sent then the amount can be adjusted against the future purchases. In case future supplies are not planned to be ordered from the vendor the legal proceedings may be initiated to recover the dues.

A PO based invoice payment processed as a non-PO based invoice

If a PO invoice is processed as a non-PO invoice, the client does not suffer any monetary loss. However, the ERP systems will generate unnecessary provisions against the PO which will remain open and unfulfilled. This would impact the financial statements. For example, goods worth $1000 were received against a PO but the invoice was processed as non-PO invoice. In this case the original PO for $1000 will remain open and at the end of the period a provision will be created for this in the accounts payable. This will affect the profitability.

In this case, once the error is discovered, the invoice data that has been keyed into the ERP should now be linked to the PO.

10.2.3 Issues in Travel and Expense

1. **The claim submitted does not have all the receipts.**

   When the travel and expense claims, submitted by the employees, are not supported by the relevant claim bills/receipts etc. then the issue of verification comes in.

   In this case, the claim is put on hold and the employee is asked to submit the missing receipts. If the employee submits the missing receipts then the claim can be taken up for further processing. If the employee does not have a receipt then usually he needs to declare that the expense claimed in the T&E submission was actually made and that declaration needs to be approved by his/her manager. Once the manager's approval is received then again the claim can be processed for reimbursement further.

2. **The travel claim is submitted for more than the sanctioned days.**

   In case the travel approval has been obtained for lesser number of days than what is stated on the claim submitted by an employee, it is possible that the employee had to travel for longer duration due to reasons related to business e.g. a sales man obtained permission to travel to a potential client for 3 business days but could not close the deal in 3 days and had to stay longer (5 days). In this case the employee needs to submit an approval from his manager that the travel claim for 5 days can be entertained and reimbursed. Once the manager's approval is received, the claim can be processed further.

3. **The claim is submitted for a higher class of travel than what the employee is usually eligible for (as per policy).**

   For example, an employee was eligible to travel by second class but travelled first class. In this case the approval from the manager needs to be obtained explaining the reasons for the exception and that the reimbursement claim may be accepted. Based on manager's approval, the claim is taken up for verification and reimbursement. There are some cases where some expenses may be disallowed, even after manager's approval because they are not payable as per the employer's policy e.g. expenses on alcoholic drinks.

10.3 RISK MANAGEMENT IN THE P2P PROCESSES

Risk is defined as the degree of uncertainty of an outcome. The various risks associated with a P2P cycle are:

1. **Supply risk:** This is the risk that the business may not receive supplies in time or of desired quality, and this may impact the operations of other business functions like production, sales or customer service. For example, a car maker may have ordered tyres from the tyre manufacturer but if the tyre manufacturer can not supply the tyres in time then the cars may not be ready for being rolled out of the factory and sold. This will result in loss of productive labour which will sit idle and loss of sales.

   This risk is mitigated by

   a. Working with multiple vendors for crucial raw materials and services

   b. Broadening and deepening the vendor relationships

   c. Selecting vendors carefully and not basing the decision on price only

   d. Doing a proper reference check on the vendor and its capabilities with its existing customers.

2. **Transaction risk**: This refers to inadvertent mistakes made by the Accounts Payable team while making payments e.g. duplicate payments, paying the wrong vendor, incorrectly processing a credit note as an invoice.

   This risk is mitigated by:

   a. Proper training and sensitization of the Accounts Payable team

   b. Proper document management of the documents received like invoices, credit notes etc.

   c. Quality controls during the Accounts Payable process itself.

3. **Internal control risk:** The P2P process has some amount of exposure various client network & ERP to the outsourcing organisation. This may result in misuse of various systems access and lead to financial losses to the client and also loss of image for the outsourcing organisation. In order to avoid such risks the BPO organisations must take necessary precautions through internal controls like access control, internal checks, compliance audit. etc. For example, a person who has both the responsibility of setting up vendors and processing invoices may set up a dummy vendor and process fictitious invoices and embezzle money from the business.

This risk is mitigated by

a. Implementing proper segregation of duties e.g. the person who is setting up vendors will never approve an invoice.

b. Implementing limits on the managerial sanctioning power (a manager may authorize a payment for up to $ 5000. Any amount higher than that may need an approval of a Vice President or above.)

c. Frequent audits and reconciliation of source documents and accounting transactions by independent auditors.

Check Your Progress

1. **Read through the situations described below and state how you will respond to these situations:**

   a. You have received a request to set up a new vendor but the bank details have not been received from the vendor yet.

   b. The price stated on the purchase order is lower than the price quoted on the invoice.

   c. The vendor has charged the transportation costs along with the cost of material, in the invoice.

   d. You have received a non-PO based invoice and have forwarded it to the buying manager for approval. It has been a week since the invoice was forwarded to the buying manager but no response has been received yet.

   e. The buying manager to whom the invoice was forwarded has reverted with a response that 5% discount that was promised by the vendor has not been passed on to him.

2. **List out the category of risk that each of the situations below belongs to:**

   a. A vendor supplying ball bearings to an automobile factory supplied a few batches with quality defects.

   b. The employee setting up a new vendor enters his personal bank account details as the vendor's bank account.____________________________

   c. A vendor erroneously submits an invoice twice to a company and gets paid twice for it. _______________________________

10.4 LET US SUM UP

We have looked at various P2P process in the previous units and how they function and how their quality is controlled. In this unit we dealt with some of the exception circumstances that frequently happen in the P2P process teams which affect the smooth functioning as well as the service level agreements of the P2P teams and usually are beyond their control.

We looked at what steps can be taken by the P2P teams to deal with such situations and prevent or minimize their recurrence.

10.5 KEY WORDS

CIF: Stands for "Cost Insurance and Freight". It is a shipment term that indicates that the price that the vendor charges for the goods will include the cost of shipment/ transportation. In this case the cost of damage of goods incur while in transit is borne by the vendor.

Escalation: A communication to a senior manager drawing his/her attention to an issue which has not been resolved yet and needs a decision from them.

Escalation matrix: The policy outlining the structure of management hierarchy to whom escalation communication needs to be sent e.g. if the client manager who is supposed to approve an invoice does not send his approval in 5 business days, the matter should be escalated to Senior Procurement Manager via email. If the approval is not provided in 15 business days, then the matter should be escalated to Vice President, Procurement.

FOB: Stands for "Free On Board". It is a shipment term that indicates that the price that the vendor charges for the goods will not include the cost of shipment/ transportation. It also indicates that the vendor does not bear the risk of transportation e.g. damage to the goods in transit or risk of goods getting pilfered/ stolen while being transported will be borne by the buyer

Internal control risk: The risk that the business may incur losses responsible for certain business function may misuse their position to commit fraud and embezzle money from the business.

Risk: Degree of uncertainty of a possible outcome.

Scanning station: The place where all the paper invoices are received and scanned into digital images. Once scanned, these invoice images can be accessed using a computer over a network.

Supply risk: The risk that the business may not receive supplies in time or of desired quality.

Transaction risk: The risk that arises due to inadvertent mistakes made by the AP team while making payments e.g. duplicate payments, paying the wrong vendor, incorrectly processing a credit note as an invoice.

10.6 ANSWERS TO CHECK YOUR PROGRESS

1.

a. Send a communication to the vendor asking for the bank details on the vendor information form or his own letter head to be sent to the vendor setup team directly. Inform the client that the request has been put on hold due to the above reasons.

b. Usually the threshold limits are defined by the client for the price variation. If the price difference is within these limits then the invoice should be processed for payment. Otherwise it should be sent to the buying manager for approval. If the buying manager approves then the PO should be modified for the new price and then the invoice should be processed. If the buying manager does not approve then the invoice should be returned to the vendor.

c Cheek with the terms stated on the PO/Master contract. If the transportation cost is to be borne by the client then the invoice should be processed for payment. If the transportation costs are to be borne by the vendor then the invoice should be returned to the vendor with a request to resubmit it with the correct details.

d. Send a reminder to the buying manager.

e. Return the invoice to the vendor along with the response from the buying manager

2. List out the category of risk that each of the situations below belongs to:

   a. Supply risk

   b. Internal control risk

   c. Transaction risk

10.7 TERMINAL QUESTIONS

1. What actions would you take if the quantity and price of items on the invoice do not match that on the PO?
2. If a person 'A' has access to vendor creation and purchase order approval, what kind of risk can it pose to the business?
3. What should be done incase a credit note is processed as an invoice?