

Mendel University in Brno

Faculty of Regional Development and International Studies

**Identifying and Recovering Lost Profits in
Accounts Payable**

Diploma Thesis

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Acknowledgment

At this place I would like to thank my thesis supervisor Ing. Ivana Blažková Ph.D. who provided me with valuable advice, comments and recommendations, which contributed to the creation of my diploma thesis.

Abstract

This thesis provides an overview of discovering and recovering hidden profits in accounts payable of a selected enterprise. Theoretical part explains the basic concepts of audit analysis and accounts payable department procedures. Practical part brings out results of audit analysis, formulation of investigated errors, recommendations for the prevention of leakage of money and improving the financial performance of the selected enterprise. The audit analysis is based on the accounting database of an enterprise with its data analyzed by audit techniques and financial insights.

Keywords

Audit analysis, accounts payable, financial accounting, payment processing

Abstrakt

Tato práce se zabývá identifikací a navrácením ušlých zisků nacházejících se na závazkových účtech vybraného podniku. V teoretické části jsou vysvětleny základní pojmy z oblasti auditu a platebních postupů v oddělení závazků dané společnosti. Praktická část přináší výsledky auditu, formulace nalezených chyb, doporučení pro prevenci úniku finančních prostředků a zlepšení finanční výkonnosti vybraného podniku. Provedený audit vychází z účetní databáze podniku, při kterém byly vybrané informace analyzovány specifickými finančními technikami.

Klíčová slova

Audit, analýza, závazkové účty, finanční účetnictví, zpracování plateb

Content

1	Introduction	9
2	Literature Review	10
2.1	History of Audit.....	10
2.2	Definition and Scope of Audit.....	11
2.2.1	External Audit.....	14
2.3	Recovery Audit.....	14
2.4	Company's Financial Accounting	15
2.5	Accounts Payable Department	17
2.5.1	Liabilities	17
2.5.2	Expenses	18
2.5.3	Accruals	18
2.5.4	Chart of Accounts	18
2.5.5	General Ledger	18
2.5.6	Debit and Credit Memos.....	19
2.6	Accounts Payable Payment Process	19
2.6.1	Invoices.....	19
2.6.2	Purchase Orders	20
2.6.3	Receiving Documents	21
2.7	Accounts Payable Matching Methods.....	21
2.7.1	Two Way Matching Accounts Payable Process	21
2.7.2	Three Way Matching Accounts Payable Process	22
2.7.3	Four Way Matching Accounts Payable Process	23

2.8	Statement of Open Items	24
3	Aim and Methodology.....	27
4	Practical Part	28
4.1	Characteristics of the Enterprise.....	28
4.2	Database Analysis and Process of Recovery.....	29
4.3	Audit Results	31
4.3.1	Duplicate Payments	36
4.3.2	Overpayments	38
4.3.3	Proposal for a Solution of Duplicate Payments	41
4.3.3.1	Require Original Invoices for All Supplier Payments.....	42
4.3.3.2	Eliminate Multiple Supplier Numbers to Reduce Duplicate Payments ..	43
4.3.3.3	Reduce Entry Errors	44
4.3.3.4	Reduce Use of Paid Incorrect Invoice Amount	46
4.3.3.5	Reduce Use of Rebills and Multiple Billings from Suppliers	47
4.3.4	Proposal for a Solution of Overpayments.....	49
4.3.4.1	Regular Checking and Managing Suppliers' Statements	49
4.3.4.2	Ensure Credit Notes Are Not Processed as Invoices.....	51
4.4	Recommendations	53
4.4.1	Best practice 1 – Suggested Procedures for the Payment of Known Copies of Original Documents.....	53
4.4.2	Best practice 2 – Suggested Procedures for Entering Supplier Invoices	55
4.4.3	Best practice 3 – Suggested Procedures for Suppliers Database Setup and Maintenance.....	57

5	Discussion	59
6	Conclusion	62
7	References.....	65
8	Summary of Tables	68
9	Summary of Figures	69

1 Introduction

The history of modern audit originates in the 19th century and from that time this discipline developed into a broad and professional system of controlling and reviewing companies accounting. In today's world, it is obvious that the trade is accelerating and business is more affected by the globalization of the world economy, world business growth, development of information technology and interconnection of international financial markets. For the purpose of having a true and fair view over the financial statements, financial positions and operations of the companies, the role of the auditor is becoming extremely important and necessary.

Companies need to keep a still faster pace with a world's business, develop their own processes and follow up competitors' advancement. In the business where the change and adaptation is an everyday affair, there is also a space for an error or mistake and accuracy or established steadiness are thus less significant and lose its ability. From the perspective of company's accounts payable department, which has in a scope of work to pay their suppliers for short-term financial liabilities, is very difficult to react, implement and handle all the changes and issues coming from the business relations.

For this purpose, companies get involve an external audit agencies to assist in a review of financial accounts to narrow up researches for an investigation of any issues or errors on their accounts. However external audit agencies have all the insights, data and internal information of the companies, it is essential to keep an absolute data protection and professionalism towards the company and their clients.

The key factor of having an external auditor in a company is to reveal mistakes which has occurred during the business operations and get them settled in a timely manner. An investigation of mistakes leads to an improvement of internal processes, avoiding leakages of money from a company, superior relationships with other business participants and better effectivity and financial health of a company. Specifically, in a review of company's accounts a method of recovery audit analysis helps to bring a revealment of lost profits and their recovery back to the company.

2 Literature Review

The first part of a literature review section examines a theoretical background of an audit, audit procedures and its implication into a company's accounting system for an investigation of financial leakages.

The second part of a literature review section describes financial accounting within a company and its relation to an accounts payable department procedures. Further, there is examined a function of payment processes and there are briefly described accounting errors and issues occurring when payments are realized towards company's suppliers.

2.1 History of Audit

The history of audit is closely linked to a development of an accounting itself. The word "audit" is derived from the Latin word "audire", which means "to hear". The origin of "audit" can be traced back to olden times, but auditing as its existing form was established only in the middle of the 19th century. (Basu, 2006).

In the past, the number of transactions in the accounting was so small that individuals were tend to check its correctness by their own or the review was conducted by their employees. If any issue regarding the accounts occurred, the owner generally called for a responsible person who may check an account and give an official statement about it. Therefore the person who had a scope of responsibilities for reviewing accounts, came to be known as an auditor.

The source of the audit could be found in the ancient states and empires, such as; ancient Egypt, ancient Greece and Roman Empire. The role of the auditor was very limited, moreover the key role was checking of public accounts and counter checks of financial officials. Later during the 15th century, there was a development in trade and commerce occurred, which also resulted in an evolution of accounting itself. This brought a significance of the auditor's position and pre-described the duties and responsibilities of the auditor.

As described by Basu (2006), the Industrial Revolution was another landmark in the history of trade and commerce. It resulted in a large scale production requiring huge amount of capital investment. Individuals were not in a position to provide adequate capital, because of their limited finances. It was at this time that the company as a form of business organization came into existence, and this widened greatly, the possibilities of raising capital for industry from the general public by the issue of shares with a limited liability.

United Kingdom became very important in 19th century in the development of audit, mainly due to needs for an accurate accounting review, coming from frequent business operations in which developed audit procedures are necessary. According to Dewar and Funnell (2016), there are strong links between sound financial control, accounting, and reporting systems, and economical, efficient, and effective administration. Ensuring probity, propriety, and regularity in the conduct of public business, avoiding waste and extravagance, and pursuing wider issues of value for money are common objectives. The most widely recognized single achievement after the 1866 Audit act published by the United Kingdom.

In 1880 the Institute of Chartered Accountants of England and Wales was originated in United Kingdom, which meant that several associations of accountants were syndicated into a single institution. This was further followed up by enlarging an importance of audit, which was underlined with an act that qualified accountants could become professional auditors.

2.2 Definition and Scope of Audit

Nowadays, the word “audit” is very common and it appears in various fields, therefore it is important to specify what the audit actually is. The diploma thesis is focused on a financial audit, but there are many other types of audits, as described by Power (1994) in addition to financial audits, there are now environmental audits, value for money audits, management audits, forensic audits, data audits, intellectual property audits, medical audits, teaching audits, technology audits, stress audits, democracy audits and many other besides.

When specifying a financial audit, we may have discover several different point of views on this subject. To be able to further explain it, there will be presented a few of definitions on this topic with a detailed elaboration.

An audit is the examination of the financial report of an organization – as presented in the annual report – by someone independent of that organization. The purpose of an audit is to form a view on whether the information presented in the financial report, taken as a whole, reflects the financial position of the organization at a given date (PWC, 2017 [Online]).

Another example brings out an explanation of audit from the perspective of organization providing audit services for external companies. Deloitte, 2017 [Online] describes that auditing is a highly complex process, and the importance of auditors as a vital link in the financial reporting chain has never been more important nor their role as trusted advisors more valued. The text further explains that it is a role of providing a range of audit and advisory services to assist clients in achieving their business objectives, managing their risk and improving their business performance.

In addition to these theories, a slightly different definition of audit could be found on the webpage of The Chamber of Auditors of the Czech Republic. The mission and purpose of the financial statement audit is to express an opinion of independent and qualified person on the veracity of financial statements published by the management. The auditor verifies whether the financial statements give a true and fair view of the financial position and results of operations and cash flows in accordance with rules prescribed by Czech or other accounting regulations, often with International Financial Reporting Standards (IFRS) (KACR, 2017 [Online]).

From the definitions described above it is apparent that the audit itself, however seen from different perspectives, has a group of similar characters. All three examples are using the same basis of values, which should be followed up by the auditor, when reviewing financial accounts. For this job the auditor needs to be qualified enough, so that he/she can conduct auditing activities for other subjects. We can involve into the group of these values;

independence, rightness, advisory and objectivity with a necessary competence required by the state or organization authority.

The scope of the audit is not restricted but more it is prescribed by the range of competences which the auditor possess. The main objective of audit is the indication and identification of frauds and errors in the accounting. As per Gupta (2004), audit involves exercise of judgement in deciding the extent of audit procedures and in assessing the reasonableness of the judgements and estimates of the management. Also, the nature of the audit evidence enables the auditor to draw only reasonable conclusions therefrom.

Company's data can be reviewed from two dimensions of audit, such as; internal and external audit. The difference between these two approaches will be further described from the position of auditor conducting auditing for an organization.

- **Internal Auditors**

Work within an organization and report to its audit committee and/or directors. They help to design the company's organizing systems and help develop specific risk management policies. They also ensure that all policies implemented for risk management are operating effectively. The work of the internal auditor tends to be continuous and based on the internal control systems of a business of any size.

- **External Auditors**

Are independent of the organization that are auditing. They report to the company's shareholders. They provide their experienced opinion on the truthfulness of the company's financial statements and perform work on a test basis to monitor systems in place.

(CareersinAudit, 2017 [Online]).

2.2.1 External Audit

External auditors are in the main interests of company's leadership. They provide a verification of the financial data which are distributed to company's shareholders. The scope of work of the external auditor is to examine the financial operations of the company and to provide an independent, fair and true opinion about company's statements. This is important due to the avoidance of any conflicts and interest and therefore the information can be relied by shareholders and any other interested parties. Over the years, the importance of external auditors have become increasingly important as a controlling factor over the corporate scandals that appear on a regular basis.

- The audit staff are well trained to professional standards and are able to perform to the requisite standard.
- The audit committee provides an adequate oversight of the audit process and ensures the external auditor represents shareholder interests properly.
- The external auditors' role in relation to employee fraud and irregularity is clearly defined and discharged.
- The external auditor is able to recognize and disclose any material misstatement of the final accounts that is perpetrated by senior executives (K. H. Spencer Pickett, 2004).

2.3 Recovery Audit

Recovery auditing reveals accidental errors of a company which leads to financial leakages. Very often occur double billings, overpayments, missed discounts and pricing issues. What is important to mention, that an aim of a company is to enhance processes in a way to ensure that an overpayment does not occur again. For bringing the best practices of such processes, companies hire recovery audit firms, which is generally conducted within specific circumstances and rationalization.

- **Measure the need for improvements**

Rather than identifying vague concerns within a business process, a recovery audit finds quantified cash leakages within the process. However, some companies never improve their operations and view recovery audits as a safety net that will collect the error rate in the process.

- **Provide the company an opportunity to learn from outsiders as to industry best practices**

Such best practices come in the areas of process, technology and people skills based on the auditors' experience in various other similar companies. Companies merge, change systems, outsource, and have employee turnover. All of these scenarios contribute to potential lost profits and, therefore, best practices are needed just to keep pace with the rate of change.

- **Create an air of transparency between the company and their vendors**

The recovery auditor may find nothing. But even then, the company still knows definitely that there are not cash leakages being held by vendors.

- **Get it before it disappears**

As profit recoveries are time sensitive, the longer an organization waits, the more difficult is to identify, validate and retrieve them (Richard B. Lanza, 2009).

2.4 Company's Financial Accounting

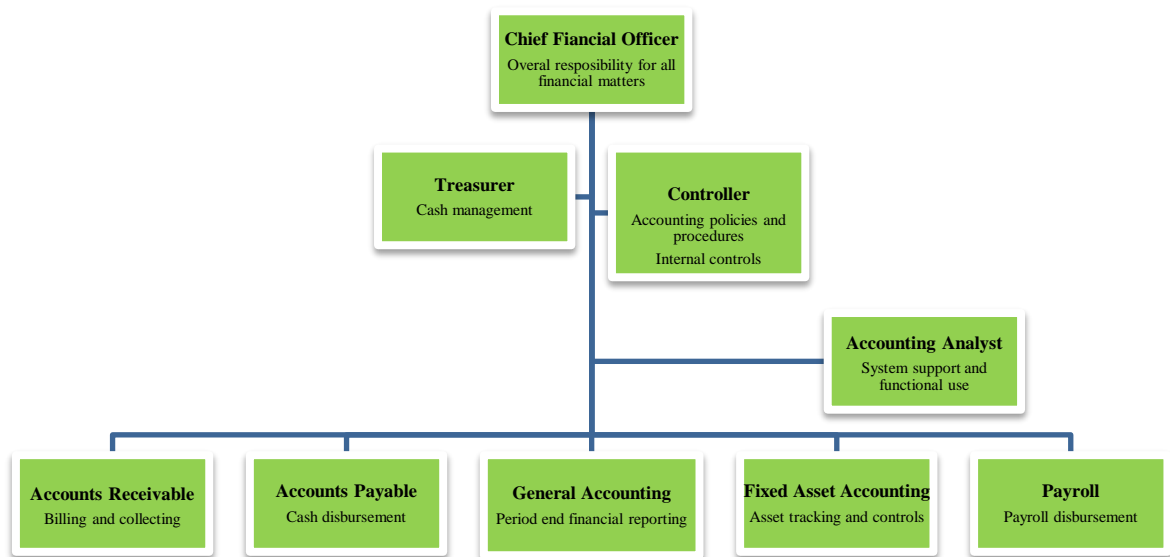
The main aim of financial accounting is to provide a flow of information from the organization to its external stakeholders about company's actions and activities. As per Drake and Fabozzi (2012) there are many sources of information available to analysts and investors. One source of information is the company itself, preparing documents for regulators and distribution to shareholders. Another source is information prepared by government agencies that compile and report information about industries and the economy.

Traditionally, the flow of information is demonstrated by financial statements made up by the company. Providing a financial information is necessary for having an overview for both internal and external participants about company's operations, financial situation and well-being.

From the perspective of company keeping their financial services and support are created accounting departments. Common accounting department registers accounts payable and receivable, fixed assets, inventory, payroll and other financial necessities. Accountants are cooperating, reviewing and analyzing mutually of each accounting department for getting a better look on company's financial position and for any changes which are required for keeping an organization cost effective. Accounting departments are dependent on each other and create a hierarchical system of business viability, feasibility and transparency in company's operations. In the figure no. 1 it is depicted a scheme of typical general accounting organization within a company. The leader of an accounting organization is chief financial officer with its overall responsibility to whom reports treasurer, controller and accounting analyst, who are important key players for the proper operations in a company. For example Keown et al. (2012) claims, that is typical when a treasurer and controller serve under the chief financial officer. However, in a smaller firm, the same person may fill both roles, with just one office handling all the duties.

The recovery auditor cooperates directly with the accounts payable department, which may be seen in the lowest part of the scheme and will be described its functioning and responsibilities in more details further in the diploma thesis.

Fig. 1: Typical General Accounting Organization



Source: Own presentation of organizational chart based on (Doug Potter, 2012 [online])

2.5 Accounts Payable Department

The accounts' payable responsibility is to deal with the company's unpaid bills. It is the money owed by the company to its suppliers and other creditors. Accountants break the money owed by the company into two groups: current liabilities and long-term liabilities. They consider accounts payable a current liability. Current liabilities are those obligations that must be paid in less than one year (Mary S. Schaeffer, 2002). For a further investigation what are the main groups of current liabilities will be these redistributed in the sections.

2.5.1 Liabilities

From the company perspective the liabilities are its obligations. In this group there are included items such as employee's salary, bank loans, money owed to suppliers and other expenditures occurring from the business operations of a company. Accounts payable's responsibility is almost always short-term liabilities.

2.5.2 Expenses

Expenses can be classified into two groups:

- Pre-paid expenses are financial resources paid in advance for a certain service or product. Typically, they are considered as an asset, however, when the expense occurs it becomes a liability for a company. For example insurance is the most common pre-paid expense.
- Current expenses occur when company pays in advance but the product or service has not been billed yet and will be paid in a current period.

2.5.3 Accruals

Accruals are sometimes handled by accounts payable department, which usually occurs at the end of some reporting period. Accruals happen when expenses have been incurred from the company, however, no invoice has been received yet.

2.5.4 Chart of Accounts

When accounts payable associate record information, they must have a category with which to associate the information. To do this, most companies assign a reference number or an account number. The list of all these account numbers is called the chart of accounts. It is sometimes referred to as the index of the general ledger (Mary S. Schaeffer, 2002). For every company it is their own decision to decide how the chart of accounts will be developed. This is also influenced by the size of a business and by its internal processes.

2.5.5 General Ledger

General ledger is consisted of a whole chart of accounts of companies an entity have a business with. The chart of accounts is accompanied by related and additional information of companies listed in a general ledger. Accountants usually use an abbreviation GL or G/L

which stands for the general ledger. The great care needs to be implied when accessing and updating any data into general ledger as there is a big space for an error.

2.5.6 Debit and Credit Memos

A debit memo is usually created for a purpose of letting the supplier know that the company wants to return their money. This can happen for example due to return of material, price reduction or some other matter. On the other hand, it can happen that the supplier realizes an overpayment and therefore issues a credit memo to the customer. For some reason it can also happen that information about the overpayment does not hit company's accounts payable and the credit balance sits on the account. In that case, supplier can write off the amount, which means that an amount is never paid back to the customer or an audit checks reveal this amount and it is refunded back to the customer.

2.6 Accounts Payable Payment Process

Primary to all accounts payable processes is the invoice processing function. As already mentioned, accounts payable's main responsibility is to pay company's bills. Although, it might seem simple, it is not due to the many factors which can easily defraud the process. Simply said, an invoice can be paid only when all system and human controls are in place and subsequently the payment is approved. The payment process itself is normally functioning when the three documents are in place: the invoice, the purchase order and the receiving documents. Now each of them will be elaborated in more details.

2.6.1 Invoices

In other words, an invoice is a bill. From the nature of business invoices can be simple or complex. It depends on a variety of goods or service bought. It may happen that an invoice consist of one product or service only, however, when several purchases are listed on the invoice, these are referred as line items.

In addition to information about what was purchased, the invoice will ideally contain this information:

- Where to send the payment
- When the payment is due
- What the payment terms are; that is, whether a discount is available if a payment is made early
- Any special instructions

(Mary S. Schaeffer, 2002)

Due to variety of suppliers and their business orientation, invoices do not show same information and obviously do not look the same. This means that for accounts payable department it is essential to check invoices very accurately for an avoidance of any errors springing from misinterpretation.

2.6.2 Purchase Orders

Within accounts payable department scope of work a purchasing department is created to manage that purchase order (PO) is going to be send to the supplier when the goods are ordered for the company. Traditionally, on a purchase order there is listed quantity and price, but also any extra or special agreement between the buyer and the supplier. Very often happens that the purchasing department negotiates special discounts or price reductions and the accounts payable department does not receive those changes. Altogether with the supplier who forgets to use the discounted price when sending invoice and accounts payable therefore cannot be aware of the price change and overpayment occurs.

Generally, it is also about a compliance of purchasing department and accounts payable on a daily basis, because very often happens that accounts payables do not receive copies of purchase orders, which also leads to the issues mentioned above.

2.6.3 Receiving Documents

Before paying an invoice, most companies want to make sure that goods were received. Additionally, they want to know whether everything that was ordered was actually sent. In some industries, suppliers are permitted to ship within tolerances of, say, 5 percent. In other words, the supplier can ship anywhere from 5 percent below the amount ordered to 5 percent above it (Mary S. Schaeffer, 2002). The accounts payable personnel therefore know before paying off invoices what is the quantity shipped. This is very important checking process for an avoidance of paying for extra material which has never been received. On the other hand this process puts bigger burden on company's personnel from the receiving department.

2.7 Accounts Payable Matching Methods

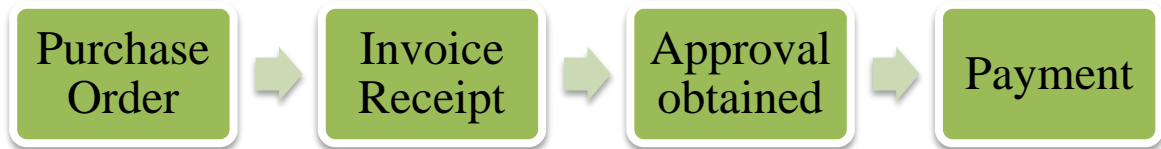
When processing invoices from the suppliers, accounts payable uses three methods of matching for goods and services ordered through a purchase order within system's approval process. As per (RFSUNY, 2011 [online]) invoices are matched to purchase orders (2 way matching), receiving information (3 way matching), and inspection information (4 way matching) as applicable. The invoices must meet matching tolerances or a hold is placed on the invoice and payment cannot be made until hold is resolved or manually released. The default setting for all invoices is 2 way matching, if 3 or 4 way matching is required it must be set on each purchase order when it is created.

2.7.1 Two Way Matching Accounts Payable Process

In two way matching process, in accounts payable department, the quantity and the amount on a specific invoice are matched to the issued purchase order. This is conducted through an automatic process, otherwise this matching process is time consuming and can lead to errors in the system. This matching process is used mainly for non-item purchases, where is no receipt, such as repair services or rent.

It is important to mention that also two way matching takes into consideration percentage tolerances of an amount ordered. However, before the payment is released, the invoice approval process must be repeated and if all tolerances are met, the invoice is approved for payment.

Fig. 2: Two Way Matching Concept

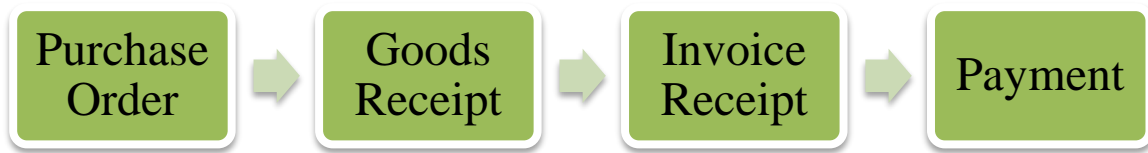


Source: Own presentation of data based on (SlideShare, 2010 [online])

2.7.2 Three Way Matching Accounts Payable Process

For three way matching process online receiving system is used. Therefore, accompanied checks are involved and warrant that system is not circumvented by any duplicate entries and overpayments. In three way matching is an invoice's quantity, amount and receiving information matched to the issued purchase order. The three way matching is commonly used for purchases of finished goods, for which the receipt is available. The additional goods receipt part in this process provides accounts payable personnel with information about the quantity shipped before the invoice is paid.

Fig. 3: Three Way Matching Concept



Source: Own presentation of data based on (SlideShare, 2010 [online])

The three way match is very popular due to a higher level of transparency and also that an online checking process is involved. The most common online and manual checking procedures as per Steven M. Bragg (2009) are as follows:

- **Automatic duplicate invoices number search.** The accounting software automatically checks to see if a supplier's invoice number has already been entered and warns the user if this is the case, thereby avoiding the need for manual investigation of potentially duplicate invoices.
- **Conduct three-way match.** The accounts payable staff must compare the pricing and quantities listed on the supplier invoice to the quantities actually received, as per receiving documents, and the price originally agreed to, as noted in the company's purchase order.
- **Print report showing payables by due date.** Since the computer system stores the invoice date and number of days allowed until payment, it can report to the user exact date on which payment must be made for each invoice, thereby eliminating the need to manually monitor this information.

2.7.3 Four Way Matching Accounts Payable Process

The four way matching process can be used in a case that a company has receiving and inspection processes online. In practice, an invoice is matched to the issued purchase order to compare amount and quantity, receiving, and inspection information.

The four way matching is usually used for purchases of finished goods, for which the receipt is available and physical verification of delivered goods is required.

Fig. 4: Four Way Matching Concept



Source: Own presentation of data based on (RFSUNY, 2011 [online])

2.8 Statement of Open Items

Suppliers keep records of open items to have an overview about an open amount which is still owed to them by their customers. Generally, the statement of open items shows all items which have not been paid yet. As Johnstone et al. (2015) explains, many organizations prepare monthly statements of open items and mail these statements to customers. The monthly statement provides a detailed list of the customer's activity for the previous month and a statement of all open items.

It is important to mention, that on the supplier's statement is shown every transaction which was not settled, meaning that not only payments from the customer or invoices from the supplier could be found on the statement. But what is mainly interesting for customer's accounts payable personnel are overpayments listed on the supplier's statement. Very often happens, that suppliers keep in their records of open items credit amounts such as: overpayments, duplicate payments, returns of goods and etc., for a very long time and are never paid back to a customer. From the practice, these money are not willingly presented to a customer until are these overpayments spotted and revealed on the statement of open items. When customer is asking for the statement, it is important to make sure that the statement shows all the activity and not invoices only.

For the accounts payable employees it is essential to understand statements received from the suppliers properly. For this purpose an example of a statement form and several possibilities how to recognize a credit amount on it will be described further. In the table no. 1 is shown a spreadsheet of statement of open items with necessary information for good understanding and review of customer's accounts payable personnel.

Tab. 1: Suppliers Statement of Open Items

STATEMENT OF OPEN ITEMS						
Company:			Date:			
Address:			Page:			
Example 1:						
Account	Date	Reference	Description	Debit	Credit	Balance
15234	1.6.2015	25356897	Invoice	3 000,00 €		3 000,00 €
15234	15.6.2015	459786	Credit Note		2 560,00 €	440,00 €
Example 2:						
Account	Date	Reference	Description	Amount	Balance	
15234	1.6.2015	25356897	Invoice	3 000,00 €	3 000,00 €	
15234	15.6.2015	459786	Credit Note	2 560,00 €	440,00 €	
Example 3:						
Account	Date	Reference	Amount			
15234	1.6.2015	25356897	3 000,00 €			
15234	15.6.2015	459786	- 2 560,00 €			

Source: Own presentation based on company's data

In the first step, it is crucial to recognize a debit and credit amount, as can be seen in the three examples provided, for a good understanding of what represents an invoice issued from the supplier and what stands for a credit note or payment from the customer. Usually, debit and credit amount are separated into two columns and also balance part can be helpful to negotiate. In the 2nd and 3rd example it is obvious that amounts are distinguished

by a description part or a negative amount, which is also very common that suppliers use a different number format for debit and credit amounts. This is necessary information for accounts payable personnel to determine and recognize, because if they do not understand it properly, it can happen that the credit note will be paid instead of being deducted.

From the perspective of payment terms have accounts payable and their company's vendors conflicting agendas. Accounts payable professionals want to hold on to their company's money for as long as possible while the vendor wants to get paid as quickly as possible (Mary S. Schaeffer, 2002). Therefore, it can happen that vendor is pushing a customer to pay directly from the statement received, however this should be always avoided. The reason is that statements can contain invoices which has been already paid or were sent to the company already and could lead to a double payment then.

Generally, receiving and a reconciliation of supplier's statements should be always implemented in the accounts payable procedures. The main reason is that accounting personnel need to be aware about discrepancies on their accounts. For example, sometimes it can happen that invoices never reach accounts payable department, which can be actually very easily investigated from the statement received and the copy of invoice can be requested afterwards for a realization of payment. In a better case, statement received will show forgotten credit amount or any other overpayment and these cash leakages can be refunded back to the company.

3 Aim and Methodology

The reason for choosing the topic “Identifying and Recovering Lost Profits in Accounts Payable” was my study practice in the audit company and an effort to deepen my knowledge and practice about this subject.

The aim of the thesis is to provide an audit analysis of a selected company for the identification and recovery of financial leakages appearing due to an inappropriate accounts payable department procedures.

To be able to achieve the aim of the thesis, the analysis and elaboration of theoretical background, clarifications of terms and explanation of accounts payable processes were used in the thesis. Subsequently, this theoretical background was necessary for conducting an audit analysis of the company and presentation of recommendations for avoiding of overpayments in the future.

For a creation of the theoretical part, the study of professional literature and familiarization with the audit subject was necessary. In order to write the theoretical part, it was necessary to read and get the specific information from the professional literature, internet sources and internal information provided by the company. In the theoretical part, the method of description was used. Especially, by this method, the definition of audit, recovery audit, accounts payable department, accounts payable process and statement of open items were described and explained.

In the practical part is used knowledge obtained from the literature review. The method of analysis of a selected criteria, information and data was conducted for the company. For the selected company, the name was changed, for a purpose of protecting the company’s internal information and provided data. Seating Ltd. & Co. KG has been analyzed for one fiscal year by an ongoing recovery audit processes. For the purpose of maintaining company’s well-being and financial health have been conducted reviews and insights of company’s financial operations towards its suppliers.

The diploma thesis is enriched by a number of useful tables and figures, which help to better understand and orientate in the audit analysis.

4 Practical Part

The practical part provides an overview of an audit conducted for company Seating Ltd. & Co. KG. The audit analysis examines a scope of audit, details of audit findings and gives a recommendation for avoidance of accounting errors and financial leakages in the future.

The practical part is divided into two sections as for main findings of errors, which are duplicate payments and overpayments occurring on the company's accounts. The elaboration of the most common accounting mistakes is described in more details for getting a better view and understanding about audit findings.

4.1 Characteristics of the Enterprise

Seating Ltd. & Co. KG is American multinational company which was established in the 19th century. Over the years the company has changed its range of activities and in the latter half of the 20th century it became known for its significant position in the automotive industry.

Company has been further strengthening its role on the international market, which resulted into a big merger at the turn of the millennium. To the 21st century was Seating Ltd. & Co. KG stepping in as a big player in the automotive industry with its ongoing strategy of the diversification of processes.

Strategically with the company's spin off also the name has been changed to represent its new strategy of innovation, adaptation and always moving forward approach. Company's main branches could be divided into three parts; producing automotive division, building management division and power solution division. Company nowadays operates in six continents, with more than one thousand of its affiliates where it employs over 100,000 people.

The audit has been conducted for Automotive Division which belongs to the one of the most important company's branches and has a significant influence on Seating Ltd. & Co. KG economic well-being.

Automotive Division

- Hundreds of locations globally
- Worldwide industry leadership
- Thousands of highly skilled and engaged employees

Automotive Division business unit produces and assemble automotive interiors and electronics to automakers.

4.2 Database Analysis and Process of Recovery

In order to be able to conduct the recovery audit for a company, it is crucial to have an access to company's accounting data. As a first successful step into a data review it is definitely important to understand, transform and organize a database into a workable form of data for the audit purposes. When processing the database, it is necessary to take into consideration a volume of transactions and internal accounts payable processes. Even if an average of 99.9% of all transactions and payments are processed correctly, the small amount of error can quickly add up to a large amount of money.

For Seating Ltd. & Co. KG was conducted an investigation of company's accounting database and statements of open items received by company's suppliers. The company is using accounting program SAP from which the raw data have been extracted for its further transformation, with help of algorithms and processes, into the data meeting a criterion of recovery audit purposes. The data gathered within the fiscal year 2015 brought out two reports of duplicate payments and overpayments transactions which were further transformed into the data meeting recovery audit requirements. Firstly will be described the process of transforming "raw" accounting data from the accounts payable database into

the effective database, called duplicate payments report, in order to reveal the financial leakages.

The purpose of duplicate payment auditing is to review and analyze company's paid history data to identify potential duplicate payments. The data have been segregated into five different reports and each report was sorted as per specific report criteria indicating the best matches that were found. Duplicate payment investigation is carried out on the basis of following report criteria:

- Highest probability – Similar invoice number, similar invoice amount
- High probability – Similar invoice date, similar invoice amount
- Medium – Similar invoice number, similar invoice date
- Low probability – Similar invoice amount
- Low probability – Similar invoice number

According to the given criterion a possible duplicate payment still needs to be checked in the company's accounting system for getting an additional information such as: invoice copy, payment detail and etc. When invoice details are showing identical information on both invoice documents, it is necessary to further check in the system whether no correction has been posted. For clearing the matter up, the supplier who issued the particular invoice needs to be contacted to approve that the duplicate payment was received and subsequently can be claimed it back to the customer.

Statement is the list of all open items which particular vendor has in records towards its client. Supplier's statement consist of open items like: invoices, credit memos, payments and unallocated cash. The main aim of statements control is to find and process all open credits and unallocated cash on the suppliers' accounts.

Whenever any unposted credit or unallocated cash is spotted on the supplier's statement, it is essential to check it first in the accounting system for making sure that no correction was posted. It is due to the fact, that even though the credit note is being open on the statement, it can be in point of fact paid and posted in the company's system and supplier

either has not provided company with the up-to-date statement, has some matching issue with payments received or possibly have not received a payment advice yet. When all precautions are fulfilled, only then the supplier can be contacted to provide an explanation about the overpayment on the statement and asked for a refund of money owed to a customer.

4.3 Audit Results

The key aspects of a successful review of accounts are to bring out identification, validation and recovering of financial leakages occurring within company's financial operations towards its suppliers.

The practical part brings out a result of the audit conducted for Seating Ltd. & Co. KG in a period of 12 months of the fiscal year 2015, from 1st October 2014 to 1st September 2015. During this time period two main data sections were reviewed.

For the duplicate payments report section were reviewed 6,295 transactions totaling 55,743,881.36 EUR representing invoices paid to the suppliers. The data has been extracted from company's accounts payable accounting transactions. For the statements report section was analyzed 7,257 transactions totaling 59,307,633.78 EUR. The report is made up of items investigated on the statements of open items received from the company's suppliers. The content of statement is usually consisted of due invoices, credit notes, debit notes, price differences, overpayments, internal documents and other transactions of supplier's accounts receivable department toward Seating Ltd. & Co. KG.

The table no. 2 shows the totals of volume and EUR amount transactions reviewed in the fiscal year 2015 from the company's accounting database. The results are divided according to country where the Seating Ltd. & Co. KG affiliate is originated from and therefore from which the particular invoice has been paid to the supplier.

Tab. 2: Total of Duplicate Report Transactions Reviewed

Country	Count	Total Reviewed (EUR)	Country	Count	Total Reviewed (EUR)
Austria	6	21,277.73	Japanese	34	263,218.82
Belgium	350	2,684,522.49	Macedonia	279	134,293.12
Czech Republic	755	7,731,400.67	Poland	457	20,037,132.22
Germany	1,712	9,584,704.65	Romania	262	262,390.24
Spain	285	2,240,897.75	Republic of Serbia	32	154,777.42
France	165	373,873.53	Sweden	311	1,878,480.08
Great Britain	690	6,596,048.20	Slovenia	61	421,707.91
Hungary	526	682,172.10	Slovakia	80	778,877.23
Italy	11	125,404.31	Netherlands	44	77,245.83
United States of America	36	1,026,701.44	South Africa	199	668,755.62
Grand Total Transactions		6,295	Grand Total Reviewed (EUR)		55,743,881.36

Source: Own presentation of company's data

The table no. 3 shows the totals of quantity and EUR amount transactions reviewed in the fiscal year 2015 from the statements received from the suppliers. The results are divided according to country where the supplier's company branch is settled and from which the statement of open items was received.

According to the results of total transactions reviewed for both duplicate and statement report, which is in a total 13,552 transactions in amount of 115,051,51.51 EUR, was recovered an economic benefit of 923,268.77 EUR back to Seating Ltd. & Co. KG. During the reconciliation of company's accounts have been found 80 errors in the audit period from 01/10/2014 to 01/09/2015.

Tab. 3: Total of Statement Report Transactions Reviewed

Country	Count	Total Reviewed (EUR)	Country	Count	Total Reviewed (EUR)
Austria	169	800,063.28	Hungary	233	8,921.00
Belgium	251	3,268,593.15	Italy	36	207,915.40
Bulgaria	1	2,663.96	Netherlands	37	208,083.16
Canada	42	82,242.90	Poland	97	189,443.28
China	23	146,771.21	Portugal	20	133,626.55
Czech Republic	727	899,709.98	Romania	118	188,258.22
Germany	2,884	25,792,143.08	Sweden	162	438,694.64
Estonia	34	35,500.04	Slovenia	42	5,839,470.72
Spain	250	2,147,734.86	Slovakia	490	1,088,971.57
France	107	705,861.42	Turkey	1	205.24
Great Britain	1,521	15,872,798.88	United States of America	7	240,211.54
			South Africa	5	1,009,749.71
Grand Total Transactions	7,257		Grand Total Reviewed (EUR)		59,307,633.78

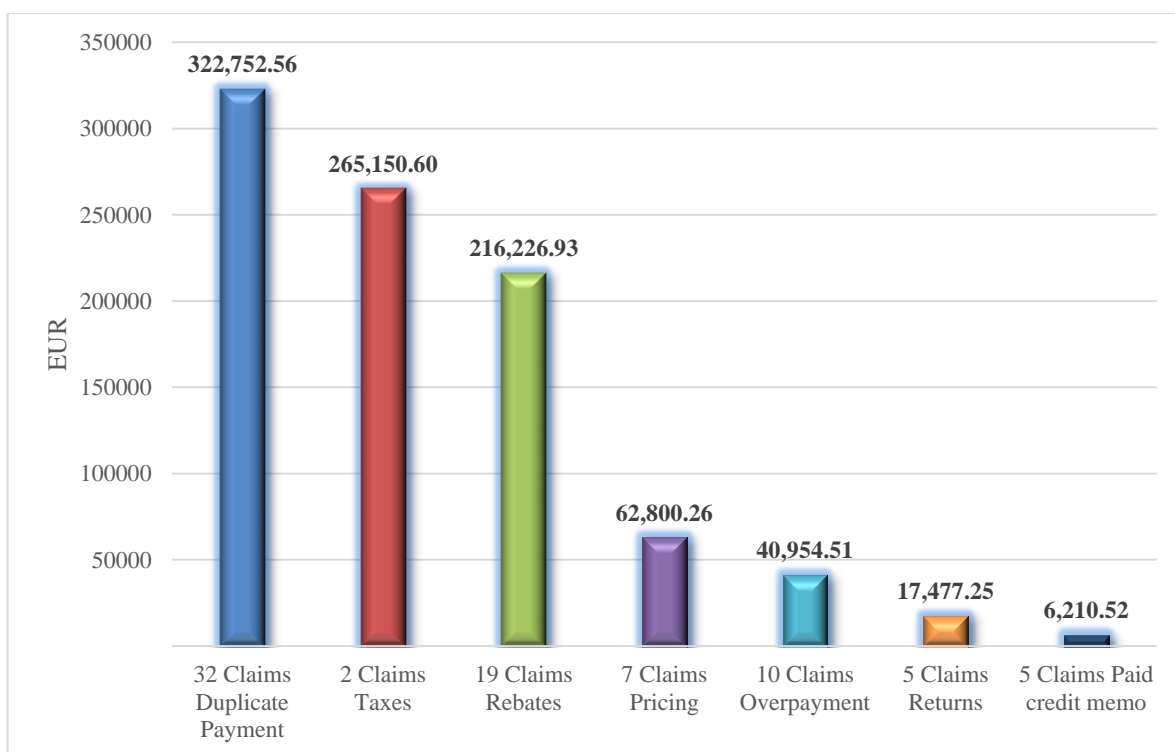
Source: Own presentation of company's data

It is important to mention that Automotive Division of Seating Ltd. & Co. KG reached 22.5 billion EUR revenue in the year 2015. For getting a better view on company's error rate, it is convenient to compare the amount of reviewed items, which is 13,552 transactions, to the number of 80 errors investigated. Taking into consideration 13,552 items, which were originally spotted by audit procedures as suspicious, to the number of 80 errors investigated. It yields a defect rate of 5,903 items per million invoices paid by the company, or in percentage of 0.59 % error rate of accounts payable department.

Recovery audit revealed that majority of financial leakages occurred when Seating Ltd. & Co. KG was paying twice to its suppliers for the same product or service

provided, therefore we are speaking about the duplicate payment type of error. As seen in the figure no. 5, during the audit period were found 32 duplicate payments in a total amount of 322,752.56 EUR. The second type error called Taxes shows the situation when company was paying for the certain period of time higher price to its suppliers due to wrongly set tax codes in their system. Even though, only 2 taxes errors occurred, the investigation has recovered an amount of 265,150.60 EUR back to the company. It is important to mention that tax errors are usually very complex issues with a large number of invoices involved in the total overpayment and therefore it becomes to be very difficult and time consuming for accounts payable personnel to process a final reconciliation of supplier's accounts.

Fig. 5: Total Recoveries by Claim Type in Fiscal Year 2015 of 923,268.77 EUR



Source: Own presentation of company's data

For the third part of errors, which is a group of rebates, was investigated 19 errors in the total amount of 216,226.93 EUR in the audit period, representing the amount refunded back to Seating Ltd. & Co. KG. The rebate represents a price discount, upon agreed

conditions between buyer and seller, for a purchase of goods or services for a certain period of time or volume of products/services.

The other part of the investigated errors consists of miscellaneous overpayments. The most important groups are pricing and overpayment types of financial leakages, which are totaling of 17 errors in an amount of 95,450.91 EUR. The pricing errors happen very often due to incompatibility of agreed prices with a buyer and seller for the specific material and certain period of time. When the agreed price is different with the actual price set in the company's accounting system and this change is not communicated or revealed in a timely manner, a huge and complicated overpayment occurs very easily.

The last group of claims is consisting of returns and paid credit memo errors totaling 10 claims in an amount of 23,687.77 EUR. The returns type of claims depicts generally a situation when are money refunded back by a supplier to a company due to inappropriate quality of material supplied or the quantity of product not matching with an order. The paid credit memo type of error belongs to a special case of issues occurring when a credit note issued from the supplier is paid by the client instead of deducing the amount of invoice, and wrongly paid and posted in the system as an invoice. In this particular case, it happens that the amount is literally paid twice by a company, which is requiring the double amount back from the supplier.

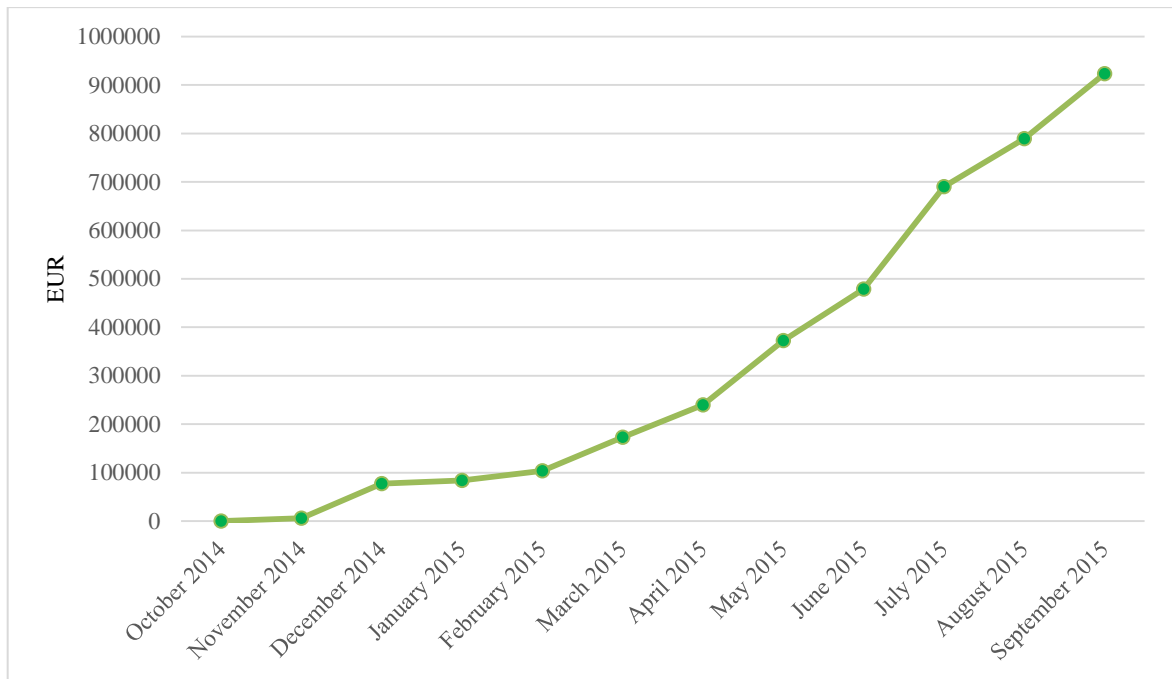
Recovery audit conducted for Seating Ltd. & Co. KG has brought a steady recovery during the fiscal year 2015. According to the results from figure no. 6, we may see a slight increase in the recovery between October 2014 and January 2015. Starting from February 2015, there is obvious a tangible increase in the total recovery (see figure 6). When following up on an overview of the development trend throughout a fiscal year, the progress is sorted by year quarters;

- 1st quarter recovery – 77,436.72 EUR
- 2nd quarter recovery – 95,700.73 EUR
- 3rd quarter recovery – 305,801.05 EUR

- 4th quarter recovery – 444,330.27 EUR

From the overview shown above, it is obvious that the total economic benefit of 923,268.77 EUR is consisted mainly from 3rd and 4th quarter.

Fig. 6: Total Cumulated Recoveries by Month in Fiscal Year 2015



Source: Own presentation of company's data

4.3.1 Duplicate Payments

Recovery audit procedure has brought a discovery of 32 duplicate payments investigated on the supplier accounts, which is detailed in the table no. 4. The duplicate payments generally generate a big amount of money leaked from the company and therefore are being a threat to which every company should be cautious to. In the fiscal year 2015, a leakage of 322,752.56 EUR has been found for Seating Ltd. & Co. KG.

When taking a look more deeply into the root cause of these errors, we may see a significant majority of rebilled invoices, which actually make up 80% from the total duplicate errors, comparing to a total EUR value recovered.

Tab. 4: Duplicate Payments by Root Cause Results

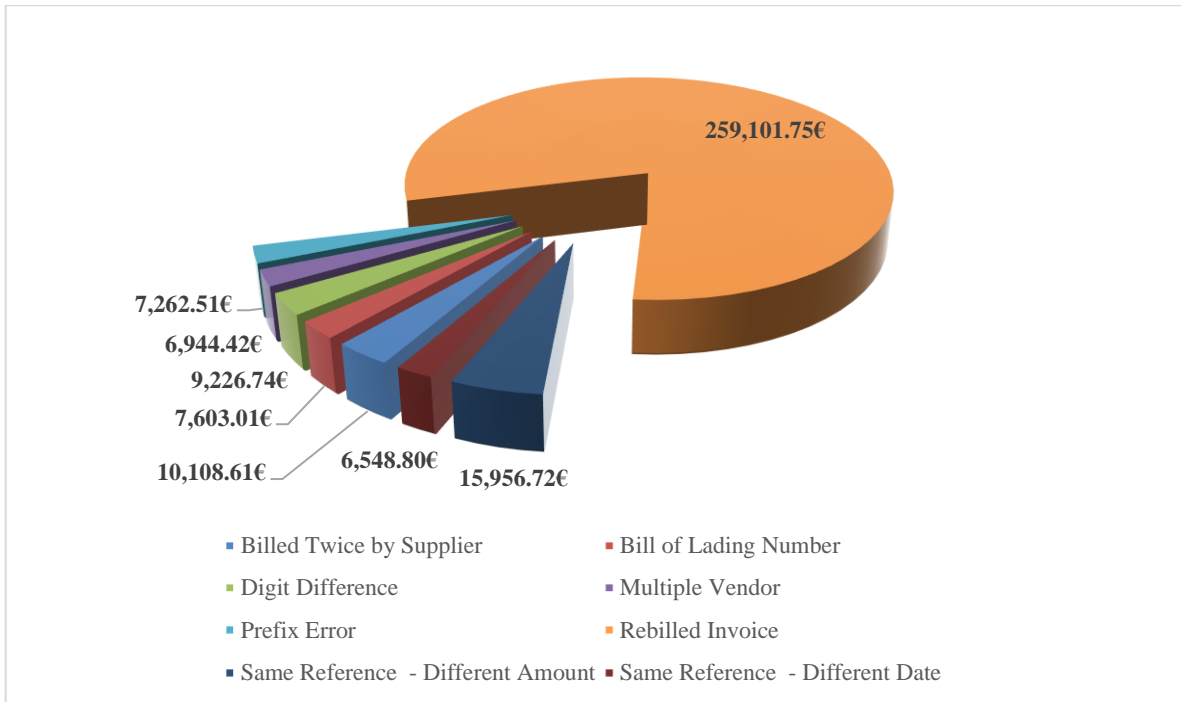
Root Cause	Sum of Amount	No of Items	% of Total
Billed Twice by Supplier	10,108.61 €	2	3%
Bill of Lading Number	7,603.01 €	2	2%
Digit Difference	9,226.74 €	5	3%
Multiple Vendor	6,944.42 €	1	2%
Prefix Error	7,262.51 €	3	2%
Rebilled Invoice	259,101.75 €	14	80%
Same Reference - Different Amount	15,956.72 €	4	5%
Same Reference - Different Date	6,548.80 €	1	2%
Grand Total	322,752.56 €	32	100%

Source: Own presentation of company's data

In the figure no. 7 it is possible to see that the group of rebilled invoices totaling 259,101.75 EUR, recovered in the fiscal year 2015, is a significant leakage of financial sources from the company. This leakage of money is happening very often because the company's system of billing invoices is violated when the original invoice is rebilled with a new invoice and the original one is not corrected.

This can happen with a various combination of errors, for example: wrong entity listed on the invoice copy, quality or quantity issues and etc. Subsequently, corrected new invoice is issued, usually under different invoice number, and the original invoice is not credited or cancelled. This type of error may be overlooked very easily by an accountant or over-ride by the entry system controls. The practical example of rebilled duplicate payment will be examined in more details further in the Proposal for a Solution part of the thesis.

Fig. 7: Duplicate Payments by Root Cause Results



Source: Own presentation of company's data

4.3.2 Overpayments

The recovery audit revealed for the both overpayments part sections 48 errors in an amount of 600,516.21 EUR.

During examination of the suppliers' accounts was discovered 10 invoice overpayments, which can be seen in more details in the table no. 5. The invoice overpayments are being spotted usually on the statements received when conducting a review of open items sitting on the suppliers' accounts toward the company.

When reviewing the statements received from the suppliers, it was found 7 types of invoice overpayment errors as listed in the table no. 5. The total recovery of 32,650.65 EUR was recovered back to Seating Ltd. & Co. KG within the fiscal year 2015.

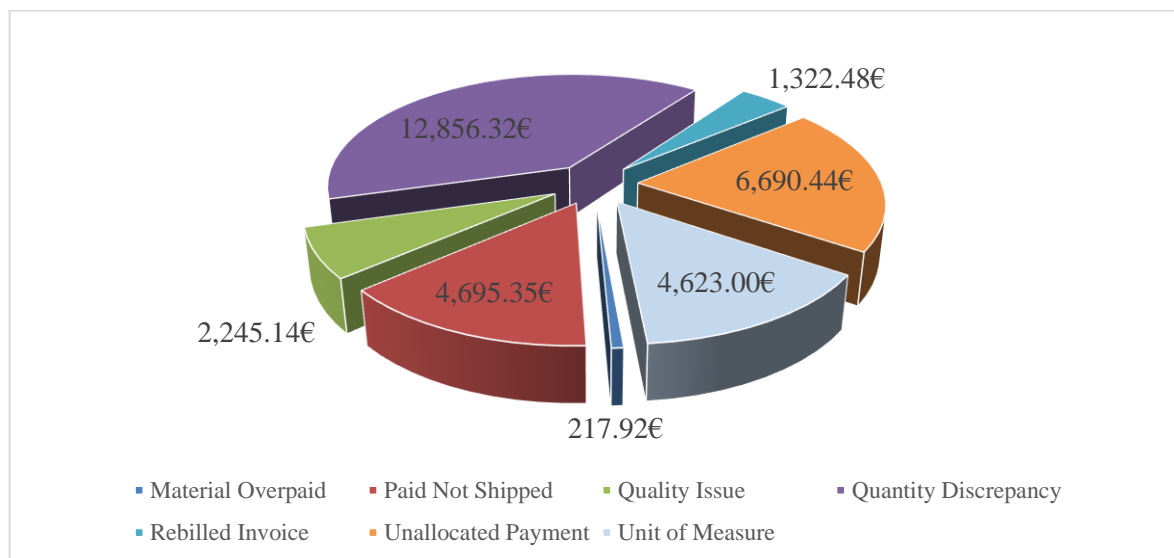
Tab. 5: Invoice Overpayments by Root Cause Results

Root Cause	Sum of Amount	No of Items	% of Total
Material Overpaid	217.92 €	1	1%
Paid Not Shipped	4,695.35 €	4	14%
Quality Issue	2,245.14 €	1	7%
Quantity Discrepancy	12,856.32 €	1	39%
Rebilled Invoice	1,322.48 €	1	4%
Unallocated Payment	6,690.44 €	1	20%
Unit of Measure	4,623.00 €	1	14%
Grand Total	32,650.65 €	10	100%

Source: Own presentation of company's data

The total segment of invoice overpayments' recovery has four significant parts, as depicted in the figure no. 8. The main recovery occurred in the quantity discrepancy error of 12,856.32 EUR and unallocated payment error of 6,690.44 EUR. The other part belongs to paid not shipped and unit of measure errors where were recovered more than 4 thousands EUR for each. The invoice overpayment summary will be further described in more details in the Proposal for a solution part of the diploma thesis.

Fig. 8: Invoice Overpayments by Root Cause Results



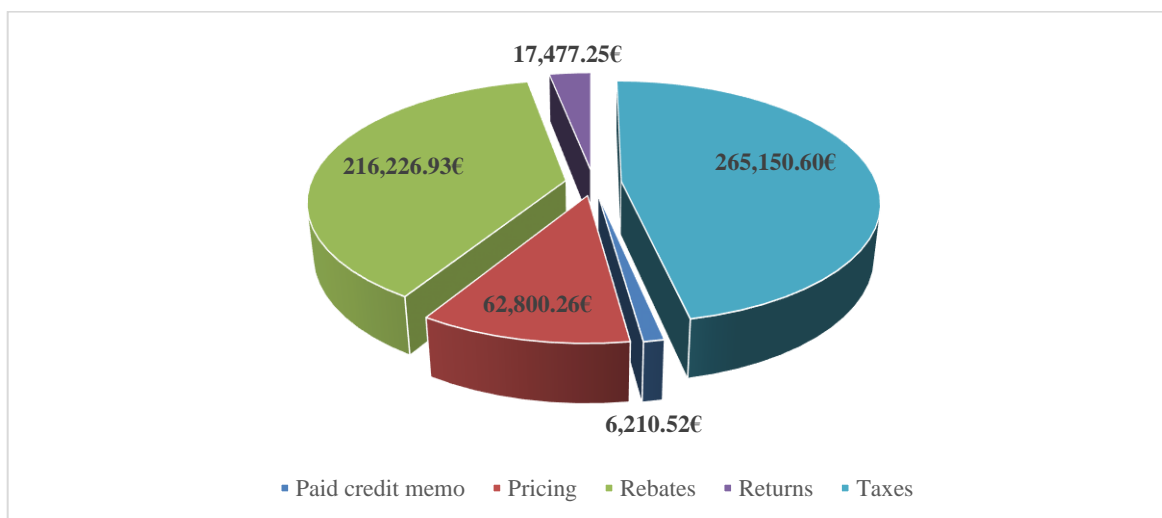
Source: Own presentation of company's data

It is important to mention that money which could have been used for the company's business purposes are instead functioning as a financial reserve for company's suppliers until it is investigated and paid finally. This time delay between paying off financial resources back to the company from its suppliers is causing an accumulation of unsolved issues on the suppliers' accounts, which also leads to confusion, disputes and a longer collection period for the company.

The last part of findings consists of 4 main types by root cause of miscellaneous overpayments with the total recovery of 567,856.56 EUR. In the table no. 6 can be seen 38 errors which were found on the suppliers' statements. The importance of regular managing, controlling and consulting of open items with the suppliers is very well supported by the total amount investigated and recovered.

By way of illustration, the total recovery consists mainly from rebates which is in the total 216,226.93 EUR and taxes with the total amount of 265,150.60 EUR (see figure 9). Then we may see a significant part of pricing issues on the suppliers' accounts with the economic benefit over 60 thousands EUR for the company. The last two types of claims, which are paid credit memos and returns, complete the total findings for the company in an amount of 23,687.77 EUR in the fiscal year 2015.

Fig. 9: Miscellaneous Overpayments by Root Cause Results



Source: Own presentation of company's data

Tab. 6: Miscellaneous Overpayments by Root Cause Results

Root Cause	Sum of Amount	No of Items	% of Total
Paid Credit Memo			
Paid Credit Memo	6,210.52 €	5	1.1%
Pricing			
Decimal Point Error	22,667.04 €	1	4.0%
Price Differences	39,646.72 €	5	7.0%
Quantity Error	486.50 €	1	0.1%
Rebates			
Delivery Rebate	192,053.40 €	16	33.8%
Sales Rebate	10,697.48 €	1	1.9%
Utility Rebate	13,476.05 €	2	2.4%
Returns			
Return Freight	5,977.56 €	2	1.1%
Return of Goods	11,499.69 €	3	2.0%
Taxes			
Tax	265,150.60 €	2	46.7%
Grand Total	567,865.56 €	38	100%

Source: Own presentation of company's data

4.3.3 Proposal for a Solution of Duplicate Payments

For Seating Ltd. & Co. KG was recovered 32 duplicate payments in a total value of 322,752.56 EUR. Generally, the duplicate payment occurs when invoice copy or money transfer order is processed for payment in addition to the original invoice.

In the particular case of Seating Ltd. & Co. KG is the duplicate entry a violation of accounts payable process, as the system's set up does not prohibit the processing of non-original invoices. Under most circumstances, the system's duplicate payment controls would prevent the processing of a secondary, non-original invoice. However, system controls are circumvented when incorrect invoice information is entered into the accounts payable system and the duplicate payment occurs.

In order for a secondary payment to circumvent the system's duplicate payment control, an additional breakdown in controls should occur, such as;

- Processing an invoice using an incorrect or altered invoice number
- Processing an invoice on two supplier numbers
- Processing an invoice by two different divisions
- Using a system with limited controls

4.3.3.1 Require Original Invoices for All Supplier Payments

Recovery audit procedure recovered 1 duplicate payment totaling 7,793.07 EUR where the same supplier number and invoice number were used. This duplicate invoice should have been flagged by the system and further researched.

Reasons for Deficiency

A review of payments to Transmission Car GmbH & Co. Kg revealed an old 2014 invoice which was paid twice. The document was invoiced twice with a same reference number #7519138080, however the invoice entry date was of one day difference, 15.8.2014 (see table 7).

Recommended Action

- Original invoices should be required for all supplier payments. If an original is not available, the invoice copy or substitute should be researched for previous payment and approved by accounts payable management.
- Accounts payable system's online duplicate payment edit (if available) should be configured to identify invoices that were processed using the same supplier number and invoice number.
- Accounts payable system's online duplicate payment edit should review invoices processed during the previous 12 months for duplicate invoices meeting these criteria.

Tab. 7: Example of Duplicate payment: Same Reference - Different Date

Reference Number	Supplier Name	Invoice Date		Amount	Currency	Comment
		First Entry Date	Second Entry Date			
7519138080	Transmission Car GmbH & Co. Kg	14.8.2014		7,793.07	EUR	-
7519138080	Transmission Car GmbH & Co. Kg		15.8.2014	7,793.07	EUR	Double Payment
			Total Payment	15,587.40		
				Total Duplicate Payment	7,793.07	

Source: Own presentation of company's data

4.3.3.2 Eliminate Multiple Supplier Numbers to Reduce Duplicate Payments

Seating's Ltd. & Co. KG accounts payable has assigned more than one supplier number to a single supplier address, and has paid invoices from one supplier under varying supplier numbers. This practice circumvents the duplicate payment edit that would normally alert a processor that the same invoice was being paid twice under the same supplier number.

Reasons for Deficiency

Reconciliation of System Logistik GmbH revealed a duplicate payment owing to Seating Ltd. & Co. KG of 8,263.86 EUR. Invoice #7187137 dated 16.11.2009 was paid twice due to using multiple supplier numbers for the same invoice. The first payment was dated 05.01.2010; then a second payment was processed on 12.01.2010 (see table 8).

Tab. 8: Example of Duplicate payment: Multiple Vendor

Invoice Number	First Supplier		Second Supplier		Amount	Currency	Comment
	Number	Name	Number	Name			
7187137	623300	System Logistik GmbH			8,263.86	EUR	Double Payment
7187137			621062	System Logistik GmbH Bocholt	8,263.87	EUR	-
Total Payment					16,527.73		
Total Duplicate Payment					8,263.86		

Source: Own presentation of company's data

Recommended Action

- Accounts payable personnel should attempt to match the correct remittance address and to verify that only one supplier number is used for similar invoices.
- Compare the postcode, telephone number and value added tax registration number of each proposed new supplier with those of existing suppliers in order to identify a potential duplicate supplier.

4.3.3.3 Reduce Entry Errors

Recovery audit recovered 10 items that were related to an invoice being entered with altered invoice numbers with a total recovery value of 24,092.26 EUR. System controls are circumvented when incorrect invoice information is entered into the accounts payable system.

Reasons for Deficiency

A review of payments for supplier Prototype Gear has revealed August 2014 invoice that was paid twice. The document was paid twice once using the invoice number #60025035 and again using the bill of lading number #10010763 (see table 9). In this case it is an issue

of a system over-ride, which wrongly assigned a delivery note number as an invoice number and processed invoice again in the system. Generally, bill of lading type or error happens when whatever number from the invoice is used instead of original invoice number.

Tab. 9: Example of Duplicate payment: Bill of Lading Number

Payment	Supplier Name	Invoice Number		Amount	Currency	Comment
		REF Number	Bill of Lading Number			
29.1.2015	Prototype Gear		10010763	1,096.00	EUR	Double Payment
30.12.2014	Prototype Gear	60025035		1,096.00	EUR	-
			Total Payment	2,192.00		
				Total Duplicate Payment	1,096.00	

Source: Own presentation of company's data

Reasons for Deficiency

A review of payments for supplier Bernard Foog KG has revealed an old duplicate payment of December 2010 invoice. The invoice was imaged a second time incorrectly, with an extra spacing (201012 vs 2010 12) and both were paid by Seating Ltd. & Co. KG.

Tab. 10: Example of Duplicate payment: Digit Difference

Payment	Supplier Name	Invoice Number		Amount	Currency	Comment
		REF Number	REF Number			
28.12.2010	Bernard Foog KG		201012/512	1,254.50	EUR	Double Payment
22.12.2010	Bernard Foog KG	2010 2/85		1,254.50	EUR	-
			Total Payment	2,509.00		
				Total Duplicate Payment	1,254.50	

Source: Own presentation of company's data

Reasons for Deficiency

A review of payments to Coaster Summers (PTY) LTD revealed an old November 2013 invoice which was paid twice. The document invoice reference was used once with a prefix of "INV" and once without it.

Tab. 11: Example of Duplicate payment: Prefix

Payment	Supplier Name	Invoice Number		Amount	Currency	Comment
		REF Number	REF Number			
31.12.2013	Coaster Summers (PTY) LTD		INV23768	505.39	EUR	Double Payment
31.12.2013	Coaster Summers (PTY) LTD	23768		505.39	EUR	-
			Total Payment	1,010.78		
				Total Duplicate Payment	505.39	

Source: Own presentation of company's data

Recommended Action

- Guidelines should be included in written accounts payable procedures to promote consistency in the entering of invoice information. More information provided in Best Practice – Suggested Procedures for Entering Supplier Invoices
- Accounts payable personnel should review their data input to ensure that the correct invoice information is entered into the system.

4.3.3.4 Reduce Use of Paid Incorrect Invoice Amount

Recovery audit recovered 4 items that related to invoices being entered with an altered invoice amount totaling 15,956.72 EUR. System controls are circumvented when incorrect or blurry invoice information is entered into the accounts payable system.

Reasons for Deficiency

A review of payments to Autociency Leasing AG revealed a June 2015 invoice that was paid twice. The document was invoiced twice with a same reference number #34969571, however the invoice was imaged a second time incorrectly, typo in amount 8,980.26 & .29, and both were paid by Seating Ltd. & Co. KG.

Tab. 12: Example of Duplicate payment: Same Reference - Different Amount

Payment	Supplier Name	Invoice Amount		Invoice Number	Currency	Comment
		Original Invoice Amount	Paid Invoice Amount			
22.9.2015	Autociency Leasing AG		8,980.26	54969576	EUR	Double Payment
25.8.2015	Autociency Leasing AG	8,980.29		54969576	EUR	-
		Total Payment		17,960.55		
		Total Duplicate Payment		8,980.26		

Source: Own presentation of company's data

Recommended Action

- Accounts payable personnel should review their data input to ensure that the invoice amount has been processed to the correct supplier account.
- The scope of duplicate payment edit check should be widened to verify invoice numbers and amounts across different supplier accounts.

4.3.3.5 Reduce Use of Rebills and Multiple Billings from Suppliers

Recovery audit procedure recovered 16 duplicate payments totaling 269,210.36 EUR where the supplier issued an invoice which was paid or credited and later issued a further invoice for the same transaction.

Reasons for Deficiency

A review of payments to Latebi Deutschland GmbH revealed a July 2014 invoice paid twice. The supplier rebilled the original invoice #8003523023 with a new invoice #8003528052 due to quality discrepancy of material on the original invoice and both invoices were paid in full.

Tab. 13: Example of Duplicate payment: Rebilled

Payment	Supplier Name	Invoice Number		Amount	Currency	Comment
		REF Number	Rebilled REF Number			
16.12.2014	Latebi Deutschland GmbH		8003528052	19,136.49	EUR	Double Payment
19.11.2014	Latebi Deutschland GmbH	8003523023		19,136.49	EUR	-
			Total Payment	38,272.98		
				Total Duplicate Payment	19,136.49	

Source: Own presentation of company's data

Reasons for Deficiency

A review of payments for supplier Thermo Tyremoto revealed a duplicate payment for 9,782.50 EUR. The supplier indicated it as duplicate payment due to the invoice #859072 and #859271 for the same material paid again on the invoice #00859072 (M) (see table 14).

Recommended Action

- Accounts payable personnel should review the purchase order that the product or service has not previously been received and paid.

- Accounts payable personnel should regularly review the statement of open items from the supplier to ensure that a credit note for a quality or quantity issue has been issued to avoid duplicate payment for the same invoice or its part.

Tab. 14: Example of Duplicate payment: Billed Twice by Supplier

Payment	Supplier Name	Invoice Number		Amount	Currency	Comment
		Reference Number	Rebilled Reference Number			
27.11.2014	Thermo Tyremoto	859072		5,014.25	EUR	Double Payment
27.11.2014	Thermo Tyremoto	859271		4,768.25	EUR	Double Payment
30.12.2014	Thermo Tyremoto		00859072 (M)	14,427.74	EUR	-
			Total Payment	24,210.24		
				Total Duplicate Payment	9,782.50	

Source: Own presentation of company's data

4.3.4 Proposal for a Solution of Overpayments

Accounts payable does not periodically review supplier statements and does not always account for all credits issued by the supplier. Recovery audit procedure reviewing suppliers open balances indicated a significant number of such credits arising from unallocated cash, miscellaneous overpayment, pricing issues, VAT overpayments and unprocessed credits.

During the recovery audit conducted for Seating Ltd. & Co. KG 48 errors were revealed in a total value of 600,516.21 EUR.

4.3.4.1 Regular Checking and Managing Suppliers' Statements

Due to many reasons it can happen that credit memos on the suppliers statements are overlooked or not spotted right away and this can happen, for example:

- Department staff often holds supplier credits until offsetting invoices are received
- Department staff believes that if credits are forwarded to accounts payable without offsetting invoices, the credits will not be reflected in departmental expenses.
- Follow-up calls by the suppliers are frequently answered by different staff members. This may result in unresolved issues, application of overpayments by supplier and strained supplier relations.

Reasons for Deficiency

Reconciliation of supplier AutoCarbon Services GmbH revealed an overpayment for the material part #48576-4/004. The supplier indicated that on the May invoices a quantity of 740 was shipped, however due to quality issue the credit note for reclamation on a quantity of 137 on this part was issued, (see table no. 15).

Recommended Action

- Accounts payable should review selected supplier statements on a monthly basis and should develop a program to obtain supplier statements from all current suppliers at appropriate intervals. They should furthermore request statements from suppliers who do not normally supply them. Supplier selection should be based on the volume of transactions, values, and return activity.
- All credits for all departments should be forwarded for processing through the accounts payable system without delay. Accounting department could then determine if credits could be deducted against current invoices or refunds requested.
- Accounts payable management should consider assigning specific supplier contact responsibilities to specific accounts payable staff.

Tab. 15: Example of Overpayment: Quality Issue

AutoCarbon Services GmbH Invoice Detail:							
Reference Number	Invoice Date	Supplier Name	Material		Amount	Currency	Comment
			Material part	Qty.			
101550022 4	26.5.2015	AutoCarbon Services GmbH	48576-4/004	540	49,480.20	EUR	Material Part Overpaid
101550021 4	18.5.2015	AutoCarbon Services GmbH	48576-4/004	200	29,520.33	EUR	Material Part Overpaid
				Total Payment	79,000.53		
AutoCarbon Services GmbH Credit Note Detail:							
101550041 1	17.9.2015	AutoCarbon Services GmbH	48576-4/004	137	12,553.31	EUR	-
				Total Overpayment	12,553.31		

Source: Own presentation of company's data

4.3.4.2 Ensure Credit Notes Are Not Processed as Invoices

Recovery audit procedure identified 5 credit notes that had been processed as an invoice, thus leading to an overpayment of 6,210.52 EUR. When any credit note is processed as though it is an invoice, an overpayment of double the value occurs.

Reasons for Deficiency

A review of payments to Latebi Deutschland GmbH revealed a billing error credit memo for 105.49 EUR that was paid instead of being deducted (see table 16).

Tab. 16: Example of Miscellaneous: Paid Credit Memo

Payment	Supplier Name	Invoice Amount		Invoice Number	Currency	Comment
		Invoice	Credit Note			
9.9.2014	Latebi Deutschland GmbH		105.49	6000246610	EUR	Paid Credit Memo
12.8.2014	Latebi Deutschland GmbH	7,105.05		2003467563	EUR	-
		Total Payment		7,210.54		
		Total Overpayment		210.98		

Source: Own presentation of company's data

Recommended Action

- Accounts payable should be trained to identify pro forma invoices, credit notes, order acknowledgements, statement and other non-invoice documents and to deal with them appropriately. It may aid control if credit notes and non-invoice documents received by mail are segregated from invoices at the earliest opportunity.
- Credit notes, when segregated, should be entered as a separate routine.
- Supplier invoices should be required for all supplier payments. If an invoice is not available, the approved substitute should be researched for previous processing by accounts payable personnel.

4.4 Recommendations

In the recommendations part of the thesis will be explained three main approaches for accounts payable personnel to maintain their internal database and to follow up procedures for an avoidance of system being circumvented by any error.

4.4.1 Best practice 1 – Suggested Procedures for the Payment of Known Copies of Original Documents

Generally, all companies have rules to limit the number of copy invoices that are paid, but in some cases, usually rising from the nature of the business, are these procedures unavoidable. This may happen in a need of urgency and therefore it is important to ensure that there is a firm set of procedures to avoid or reduce the chance of these payments resulting in duplication. When company pays a copy of invoice, there always has to be a robust control to avoid any issues.

1. Identify the Cause of a Copy

- At first to require an explanation from the supplier why the original copy is missing. In many cases it could be a problem of authorization procedures rather than processing weaknesses in accounts payable.
- To create documentation with a brief history why the original invoice is not being used.

2. Assign Responsibility for the Copy Payment

- The best procedure is to flag all payment from copies made in the system. This provides a benchmark for which a further review of these flags by supplier and accounts payable department identify who made a wrong input.
- It is important to require re-authorization by the requesting department.
- It is important to require the authorization of senior management before paying a copy.

3. Procedural Controls – System Checks

- As a preliminary measure is to run a system check daily by invoice number, date and value to identify duplicates before payment.
- To implement an ordinance to check the system before realization of a payment and moreover to attach an evidence of the check to the payment authorization.

4. Procedural Controls – Manual Checks

- To have all copies marked as duplicates.
- The process requires a manual search to ensure that the original invoice was not paid, this counts especially for older invoices. It is also convenient to conduct a manual search to ensure that a copy is not paid while an original invoice is being processed in the system. This manual check process should be based on supplier account for which invoice number, invoice amount and invoice date it belongs to. However, system checks will be inadequate where multiple supplier accounts are maintained for the same suppliers. In this situation, there is necessary to search manually across suppliers' accounts and this process requires an extra research according to invoice value.
- It is inevitable to require proof of delivery in the case when the copy was received and original receipt documentation is not available.
- To provide entire a three way match for confirmation whether or not the purchase order has been filled and to check for unmatched goods receipts on the purchase order.
- A regular checking that closed purchase orders cannot be reinstated and in that case it is important to require that a new purchase order is raised.

5. Assumptions

The following assumptions should be made prior to the payment of copy of original invoice:

- To verify whether invoice has been paid previously and therefore has been posted on to a supplier account.
- To verify whether invoice has been received but not processed and is held in an open file.
- To verify whether invoice has been misplaced or is being held by an end user for authorization.

Tab. 17: Best Practices 1: Tests Prior to Payment of the Copy

Prior to Payment of the Copy the Following Tests Should be Completed:	
Checkbox	Verification Procedure
<input type="checkbox"/>	Original invoice is not posted to hard copy or electronic copy of purchase order.
<input type="checkbox"/>	Original invoice is not listed on remittance advice for a supplier.
<input type="checkbox"/>	Original invoice is not listed on remittance advice yet to finalize to be sent to a supplier.
<input type="checkbox"/>	Original invoice is not located in an open file of unprocessed invoices.
Date:	Tests performed by:
Date:	Payment authorized by:

Source: Own presentation of company's data

4.4.2 Best practice 2 – Suggested Procedures for Entering Supplier Invoices

General Rules

- To use the same number as it is shown on the supplier invoice.
- Select a consistent policy of including, or not including punctuation or leading zeros (-, /); not keying punctuation or leading zeros speeds up the process.
- Select a policy of excluding spaces contained in the invoice number. Spaces are easily miss-keyed.

- Never group invoices; enter each as a separate entry.

1. Case sensitivity

It is good and basic hint to avoid duplicate entering. If possible to set system options to “not case sensitive” for validation of invoice numbers, thus system will not distinguish from uppercase and lowercase letters. If this option is not available, operators entering invoices should be instructed to active “Caps Lock”.

2. Invoice Numbers Longer than Invoice Number Field

Generally, most accounting systems allow from 10 to 15 characters in the invoice number field. This may not be sufficient as many invoice numbers exceed the field length.

Once the invoice number is shortened to meet the criteria, the risk of double entering dramatically rises. Therefore, each supplier invoice falling to this category should be reviewed and exceptions noted in accounts payable procedures. If it happens that suppliers usually use these invoices, the system should be upgraded to allow longer invoice numbers.

3. Suppliers Who Re-use the Same Invoice Number

Some suppliers occasionally restart the invoice number sequence. Considering that system may check in the accounting database history for duplicate payments, it could happen that an invoice is rejected as a duplicate. When this occurs, a main character or an agreed date format (e.g. 280615 for 28 June 2015) should be added to the end of each invoice number entered.

4. Billing Statements Used by Small Suppliers

Many service suppliers or small suppliers (e.g. contractors, lawyers, accountants, designers, and engineers) do not include an invoice number with their billing. To avoid any potential duplicate entering of invoices, it is proper to use as an invoice number the statement date, as six digits with no dots, dashes or slashes with the invoice amount included.

For example; a billing statement was received from the supplier with an invoice dated 28 June 2015 in an amount of 815.23 EUR. Thus, the invoice number for entering into the system is 28061581523. It is better than usage of the account number that is repeating with every payment.

4.4.3 Best practice 3 – Suggested Procedures for Suppliers Database Setup and Maintenance

The responsibility for setting up and maintaining suppliers and their corresponding numbers to the database should be founded in accounts payable to insure efficient control and maximum security.

General Rules

- General access to the supplier database should be limited to information search only.
- Only a limited number of personnel should be able to enter information for maintenance or making any updates or changes.
- Suppliers should be set up in the database before any purchase orders are issued or any payments made.

Sustaining an Accurate Naming Convention

For the company it is very important to maintain a naming convention, otherwise several records could be set up for the same supplier. And therefore this is making it difficult for the accounts payable personnel checking the database to determine if a payment has already been made. There are some guidelines listed below to use:

- For suppliers commonly known by their initials or an acronym, it is better to use a shorter version, rather than full name (i.e., BP not British Petroleum). The full business name can be put in the notes or description.
- To avoid using of abbreviations, as this can also lead to duplicate entering (i.e., Marks & Spencer, not M & S).

- To avoid substitution the symbol “&” for “and” in supplier names (i.e., F&F, not F and F).
- It is important to eliminate any spaces and periods between initials (i.e., KFC, not K F C or K.F.C).
- For a group of individuals, it is important to stick the following procedure. At first to list their first name, followed by a space, then their last name (i.e., David Limberg, not Limberg, David or Limberg David); also to not use prefixes such as “Mr.,” “Ms.,” and “Dr.,” middle names, or any apostrophes. Furthermore, middle names or any auxiliary information can be included in the notes or description.

5 Discussion

The practical part brings out the audit analysis for the company Seating Ltd. & Co. KG conducted for the fiscal year 2015. The review of company's accounts towards its suppliers revealed that a considerable amount of money was overpaid due to the series of errors investigated. With a help of recovery audit procedures, cooperation of suppliers and company's accounts payable personnel was this amount claimed back to the company.

The aim of the diploma thesis was to conduct the audit analysis where financial leakages are identified, recovered back to the company and recommendations are provided to accounts payable department staff to improve their internal payment procedures.

During the elaboration of the practical part following findings were revealed.

Seating Ltd. & Co. KG is using an accounting program SAP from which the raw data have been extracted for its further transformation, with help of algorithms and processes, into the data meeting a criterion of recovery audit purposes. The company implemented procedural checks for an avoidance of overpayments occurring toward their suppliers. It is important to mention that within company's SAP program was created a system check for duplicate payments, based on checking for double entry of invoice number, invoice date, invoice amount and their combinations even for cross-vendors data. The company is using a three and four-way matching for processing of payments and both automatic and human controls to ensure smooth and regular business operations.

From the perspective of the company handling with a data provided from their suppliers, it should be mentioned a few important facts. Seating Ltd. & Co. KG accepts internal processes of their supplier, which means, that there is no push for a standardized design of invoice copies, invoice numbers, languages, date formats and so on. Because of this, company's system and accounts payable personnel are receiving various data for the processing, which also leads to a higher risk of wrong inputs into the system. As it has been explained in the best practice part of the diploma thesis, there are suggested procedures which company should follow up on the regular basis, the system should be set up in

a standardized way and company's personnel should have an access to the proper training, where all the information are provided.

In particular, company needs to follow up the rules for limiting the number of copy invoices that are paid to the suppliers. If it is not avoidable, it is important to ensure that there are procedures to avoid or reduce the chance of these payments resulting in duplication. When company actually pays a copy of invoice, there needs to be an additional control or measurement to evade any potential issue.

For the company it is inevitable to implement the system of setting up and maintaining suppliers' database. Accounts payable department should have this database updated before any payment or purchase order is issued. To this suppliers' database should be set up only limited access to avoid entering wrong or not valid information, which can lead to a double entering of supplier information and extra payments issued to several entities. For this purpose Seating Ltd. & Co. KG has implemented an internal database of suppliers for accounts payable personnel to find a basic information about the activity, business relations, company representative, payment terms, company address and many other information about the particular suppliers. For the group of suppliers is created a very similar database consisting of information about entities of Seating Ltd. & Co. KG with which the particular supplier has a business with and also is this database enhanced with an information about invoices received from the supplier and their status of being paid and posted in the system.

Regarding to invoice entering procedures into the system by accounts payable employees, it is important to promote consistency in the entering of invoice information to ensure that the correct invoice information is entered into the system. During the audit analysis were revealed several mistakes due to a system override and human typos errors when entering invoices to the system. Accounts payable personnel should be suspicious especially about the suppliers where shipments for the same products are repeating and therefore any quality or quantity issue can occur with the shipment. To have a better overview of these issues it is recommended to check suppliers' statements on a regular basis.

During the audit analysis for Seating Ltd. & Co. KG it was investigated that supplier statements are not periodically reviewed by accounts payable staff. Supplier statements should be checked and received on a monthly basis and if it is not possible to be obtained so, it should be collected at appropriate intervals, for example quarterly. When credits are investigated, they should be forwarded for processing through the accounts payable system without any delay. Also it is important to assign specific accounts payable staff for specific suppliers or suppliers which request an exceptional concern. During the audit analysis was investigated that accounts payable personnel should be trained properly to identify credit notes, invoices and other non-invoice documents to be able to deal with them appropriately. As from the recovery audit perspective was investigated several issues when the credit notes were not spotted on the statements or credit notes were wrongly assigned as invoices and paid by accounts payable personnel.

6 Conclusion

The diploma thesis is focused on an examination of accounting errors occurring within accounts payable processes and gives a recommendation for avoidance of financial leakages in the future. The audit analysis was conducted for company Seating Ltd. & Co. KG for the fiscal year 2015, representing a period of 12 months. The diploma thesis is divided into two parts, literature review and practical part.

The literature review part provides a theoretical background related to audit analysis and accounts payable processes. For a reader of the diploma thesis it is important to understand the function of audit, definition of audit processes and aspects of recovery audit. The correct procedure of a recovery audit is a key factor for a successful investigation of company's financial leakages. Further the literature review deals with a hierarchical scheme of accounting department in a company with emphasize on accounts payable department and its procedures. From this point of view it is examined a function of payment processes related to a matching process and explanation of accounting errors and issues occurring during business operations towards company's suppliers. The last chapter closes the whole theoretical part with a topic regarding the statement of open items, defining what the statement is, how to reconcile the statement and what measurement for the investigation of overpayments should be implemented by accounts payable department.

The practical part presents results of two main sections, which are duplicate payments and overpayments, investigated on the Seating Ltd. & Co. KG accounts. However it is important to mention that the recovery audit has not been arranged for the whole company, but for the main company's branch called Automotive Division, which is representing 22.5 billion EUR of gained revenue in the year 2015.

The recovery audit was conducted for the period of 12 months and during this time were selected for a deeper investigation 13,552 transactions, which is representing 115,051,51.51 EUR in a total amount of company's accounting documents reviewed. From the scope of potential transactions investigated was recovered

923,268.77 EUR back to Seating Ltd. & Co. KG. Specifically, during the reconciliation of company's accounts have been found 80 accounting errors in the company's fiscal year 2015 from 01/10/2014 to 01/09/2015. For getting a better view on company's error rate, it is convenient to compare an amount of reviewed items, which is 13,552 transactions, to a number of 80 errors revealed. The counting of the specific error rate brings out a defect rate of 5,903 items per million invoices paid by the company, or in percentage of 0.59 % error rate.

The first part of the practical part deals with duplicate payments investigated on the company's supplier accounts. The recovery audit procedure has brought a discovery of 32 duplicate payments in a total amount of 322,752.56 EUR. The total amount of duplicate payments is consisted mainly of rebilled invoice type of error (259,101.75 EUR), which makes up 80% from the total volume of duplicate payments errors. For the accounts payable personnel is difficult to reveal this issue, because when corrected new invoice is issued, usually under different invoice number, the original invoice can be very easily forgotten to be credited or cancelled in the system and then it is very problematic to reveal this error by regular system checks. The other group of duplicate payment errors occurs when non-original invoices are processed and therefore the system controls are circumvented when incorrect invoice information is entered into the accounts payable system. From the duplicate payment breakdown it could be found both human and system errors of altered invoice number, invoice amount, prefix typos and other issues occurring when the invoice is entered to the system.

The following chapter of the practical part describes overpayments revealed through the recovery audit processes. Within the investigation of supplier statements were revealed 48 errors in a total amount of 600,516.21 EUR, which is the main resource of money claimed back to Seating Ltd. & Co. KG. The total recovery was consisted mainly from miscellaneous overpayments such as: suppliers' rebates (216,226.93 EUR) and differences in taxes (265,150.60 EUR) in the total amount of 481,377.53 EUR. For the rest of invoice and miscellaneous overpayments, totaling 119,138.68 EUR, it is important to mention price differences type of error (62,800.26 EUR recovered), which is significant due to

the complexity of the issue and difficulty for accounts payable personnel to provide a reconciliation of supplier's account affected by wrong prices inputs. Other overpayments usually comes into being from revealed unposted credits on the suppliers statements that are overlooked or not spotted right away. Credit memos are usually created by the suppliers due to quality or quantity issues as investigated how to proceed by accounts payable personnel in the Proposal for a Solution of Overpayments part of the thesis.

Upon the results investigated during the recovery audit conducted for Seating Ltd. & Co. KG recommendations for the accounts payable staff were formulated. In the Proposal for a Solution chapters for both duplicate payments and overpayments were elaborated the main representatives of errors investigated. According to the results, it is obvious that accounts payable has an obstacle with processing of non-original invoices, tracking of rebilled invoices and managing to obtain, understand and reveal unposted credits from the suppliers' statements. For the reason to avoid of this happening in the future it was provided an elaboration of the errors, detailed explanation of reasons of deficiency and recommended actions for the company's accounts payable department staff. The three main best practices were created for the accounts payable to follow up and implement robust verification procedures into the internal payment processes.

The aim of the diploma thesis was to provide an audit analysis for Seating Ltd. & Co. KG to identify and recover financial leakages occurring in accounts payable department. However, the diploma thesis also serves as a graphical advisory plan for other companies to avoid losing their money due to inadequate accounting system settings and as an instruction plan for the accounts payable personnel in general to improve their abilities and to reduce an error rate when issuing payments to the suppliers.

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8 Summary of Tables

Tab. 1: Suppliers Statement of Open Items

Tab. 2: Total of Duplicate Report Transactions Reviewed

Tab. 3: Total of Statement Report Transactions Reviewed

Tab. 4: Duplicate Payments by Root Cause Results

Tab. 5: Invoice Overpayments by Root Cause Results

Tab. 6: Miscellaneous Overpayments by Root Cause Results

Tab. 7: Example of Duplicate payment: Same Reference - Different Date

Tab. 8: Example of Duplicate payment: Multiple Vendor

Tab. 9: Example of Duplicate payment: Bill of Lading Number

Tab. 10: Example of Duplicate payment: Digit Difference

Tab. 11: Example of Duplicate payment: Prefix

Tab. 12: Example of Duplicate payment: Same Reference - Different Amount

Tab. 13: Example of Duplicate payment: Rebilled

Tab. 14: Example of Duplicate payment: Billed Twice by Supplier

Tab. 15: Example of Overpayment: Quality Issue

Tab. 16: Example of Miscellaneous: Paid Credit Memo

Tab. 17: Best Practices 1: Tests Prior to Payment of the Copy

9 Summary of Figures

Fig. 1: Typical General Accounting Organization

Fig. 2: Two Way Matching Concept

Fig. 3: Three Way Matching Concept

Fig. 4: Four Way Matching Concept

Fig. 5: Total Recoveries by Claim Type in Fiscal Year 2015 of 923,268.77 EUR

Fig. 6: Total Cumulated Recoveries by Month in Fiscal Year 2015

Fig. 7: Duplicate Payments by Root Cause Results

Fig. 8: Invoice Overpayments by Root Cause Results

Fig. 9: Miscellaneous by Root Cause Results