



UNCOVERING THE
HIDDEN BENEFITS OF A
PROFIT RECOVERY AUDIT

**AUDITS NOT ONLY YIELD CASH, THEY PROVIDE
INSIGHT INTO AVOIDING FUTURE ISSUES**

A PROFIT RECOVERY AUDIT, sometimes referred to as an accounts payable (AP) recovery audit, can seem akin to exercise. You know it is good for you, but it can be hard to commit, and the benefits are not always immediately apparent.

From the standpoint of a senior finance executive, the purpose of a profit recovery audit is to root out the causes of financial leakage. However, top-level management sometimes mistakenly views invisible financial leakage as the “cost of doing business.” It doesn’t have to be that way.

Recovery of cash from an external audit program is pure profit. There is no need to increase staffing if you select the right firm. This is “profit recovery” with no additional capital investment, no sales increase, and no additional operating costs. The recoveries fall directly to the bottom line.

Profit recovery audits provide more than just a boost to earnings. If you’re doing a profit recovery audit to simply check off a box, that’s not going to yield the insights and analysis required to change your processes going forward.

That isn’t to say a profit recovery audit is without some challenges. Among the top concerns is gathering sufficient and accurate data. Data is key to a successful profit recovery audit, but pertinent information is often scattered among various departments, business units or groups.

Organizations that take a broader view of profit recovery audits are more likely to achieve success. While a profit recovery audit is obviously designed to recover lost profit— not

an insignificant goal — there is so much more that can be gained. A profit recovery audit can identify process and control weaknesses and areas for improvement. It can also highlight compliance to established controls and adherence to government regulations. The goal is to avoid financial leakage before it happens.

There can often be a reluctance to implement a recovery audit for fear of exposing gaps and cracks. The word “audit” is not always viewed positively by many people, whereas a “profit recovery audit” sets a different tone. There can be some cultural resistance, especially from middle managers who feel their efforts are being put under a microscope.

What is important for finance leaders of any business to understand is that leaks do happen, even in the largest organizations with the most formalized processes. Understanding industry benchmarks for leakage is important for any senior financial executive to ensure a team is engaged with a recovery audit partner to uncover the most revenue, while building a better process for future leakage prevention. A profit recovery audit is truly a “no regrets” exercise performed as a regular practice by many large organizations.

This white paper will outline the hidden benefits of profit recovery audits, some of the challenges, and best practices for transforming this critical function.



WHY PROFIT RECOVERY AUDITS MATTER

What is important for finance leaders of any business to understand is that unintended payment errors to their suppliers do happen, even in the largest organizations with the most formalized processes. Because no system or individuals operating within your source-to-pay (S2P) cycle are 100% error free, common areas for payment errors include duplicate or wrong payments, rebates and allowances, pricing errors, missed payment term opportunities, escheatment avoidance, and transportation billing. A profit recovery audit engagement will identify the errors and return the lost profit back to your bottom line.

Every senior financial executive should ensure that their team is engaged with a recovery audit partner that can offer advanced audit technologies

and experienced audit team members who understand the intricacies of the S2P cycle.

While the level of recovery savings is a key benchmark, there are a host of other reasons that profit recovery audits warrant the attention of senior finance executives. These advantages include understanding where the leakage is occurring within the S2P, leveraging insights and recommendations from the audit and applying best practice methods in building a better process to prevent future leakage.

There must be something driving the process. CFOs should care about gaining actionable insights, such as why their organizations are overpaying or under-deducting. Those are key and valuable benefits of the profit recovery audit.

Any company spending billions of dollars per year will benefit from a profit recovery audit. And, profit recovery audits are appropriate for many industries, including manufacturing, telecom, oil & gas, financial, pharmaceutical, wholesale, distribution, to name a few. Profit recovery audits are quite common in the retail environment where they go beyond AP transactional data and look at SKU level, pricing, rebates and promotional funding.

However, there are often nuances that exist within an industry. In the manufacturing pharmaceutical industry, for example, Evaluated Receipt Settlement (ERS) can streamline the process of paying suppliers and receiving goods, but there are errors that can occur from the use of these systems. These errors can add up to significant lost profit. Two key areas that can be audited are pricing (what is the price in the system and is it accurate?); and quantity (was the same packing slip received at multiple locations?).

For any company that uses paper checks — and there are still plenty who choose paper over digital payments — the escheatment process

is often ill defined and without clear direction as to which group has ownership. As a result, companies are at risk for not following state laws for turning over unclaimed property when the checks aren't cashed. State audits can go back 20 years with significant penalties and interest, which can cause a major drain on already strained resources. As part of your profit recovery audit, an escheatment audit entails reviewing previously filed escheatment returns to determine if overpayments have taken place. And, if they have, then working with your suppliers to verify that no liability is in escheat and work with the appropriate state to draw back the overpayment. In addition, reviewing transactions within the audit period to determine if escheatment should have been filed.

Profit recoveries impact many internal and external functions — vendors, purchasing departments, business units, accounts payable, cash and banking to name a few. As CFOs are moving beyond their accounting and reporting roles to have greater influence on business strategy, visibility into these areas provides an overview of how they can work more efficiently and cohesively to ensure profitability.

THE OPTIMAL TIME TO AUDIT

In some organizations, senior financial executives may have the best insight into when a recovery audit should be executed, but there is never a bad time to start recovering and understanding points of financial leakage. One of the biggest vulnerabilities in the source-to-pay process happens when multiple AP systems are being integrated. This can often happen as a result of acquisitions and divestitures.

Companies that move their outsourcing to other countries are also vulnerable to process and system errors, which presents another timely opportunity to embrace recovery audit. Often there are nuances in each country that may be unknown to an offshore business process outsourcing (BPO) firm, leading to new or continued leakage.



CHALLENGES TO PROFIT RECOVERY AUDITS

While there are admittedly technical hurdles to the profit recovery audit — siloed data, manual processes and multiple AP systems among them — cultural barriers are often a greater impediment to progress. Mid-managers can sometimes feel as if fingers are being pointed at them when money is reclaimed, whereas top management wants the cash recoveries and audit insight to help with process improvements. Getting buy-in from key stakeholders is critical to maximizing recovery and learning. The term “audit” can be seen by some as negative — but in reality, the audit focus is on recovery of unseen profit leakage.

Companies that bring in a third party to conduct a profit recovery audit are also concerned that it will require a great deal of resources and be disruptive. Additionally, client personnel changes during the audit can lead to problems if the new staffers either don't embrace the audit process or have competing priorities that top management does not address.

However, many organizations overestimate the time and people required to conduct an audit, and third-party firms such as PRGX can operate transparently, but very independently, once they have access to the data.

Another concern is the potential for supplier abrasion and ensuring that the audit provider has the necessary safeguards in place to protect supplier partnerships. Issuing false claims to

suppliers is a common malpractice of some profit recovery audit firms who lack the skillset and professional courtesy of working with suppliers on the client's behalf. For example, PRGX adheres to a quality assurance program where all claims for recovery are well-vetted, documented and 100% reviewed by the audit supervisor before any outreach is made to the supplier.

As it relates to global or multi-regional profit recovery audit programs, a common challenge is ensuring that the audit process and reporting is consistent across all regions. Working with a recovery audit firm that does not have a global footprint and scalability across regions and that lacks language, cultural, and regulatory competencies, most certainly creates an ineffective audit and can lead to supplier abrasion. For example, PRGX has auditors on the ground in more than 20 countries who understand the culture, regulations, and how to effectively work with client suppliers.

Another common challenge is how to prevent future payment errors. Profit recovery audit firms that focus on recovery savings alone, or that lack the technology and/or skillset in conducting root-cause analysis, cannot in turn provide recommendations for improvement. Maximizing recovery savings and providing best-practice recommendations of findings should be of equal importance in maximizing client project return on investment when finding a third-party partner.

BEST PRACTICES FOR SUCCESSFUL PROFIT RECOVERY AUDITS

Companies are sometimes reluctant to perform profit recovery audits because they are concerned that the process can be disruptive with limited yield. Many organizations find that an effective profit recovery audit involves bringing in a third party, as the right partner can minimize the effort and resources needed.

When everyone is on the same page and friction is reduced, audits are naturally more successful. If leadership works with mid-management to foster an open and welcoming environment, audits usually proceed much smoother to maximize profit recovery.

Setting the table properly upfront can assure that audits meet expectations. Getting all stakeholders on board from the beginning is critical. The message needs to come from upper management that this is an important task that is tied to the profitability of the organization.

Ensuring that as much of the profit recovery process is automated is also critical. PRGX continually invests in solutions to identify, monitor, and correct common errors before they happen, by positioning its core audit

capabilities upstream in the transaction process and conducting a preventative review.

PRGX produces a detailed root cause analysis of the financial leakage to identify resources where processes are broken, and the resources needed to examine and repair the issues. The audits do not require a budget because they are contingency-based and therefore self-funding: — they get a percentage of what is recovered — the recoveries can fund investments and curb future leakage, creating real savings.

PRGX notes that its audits are non-intrusive and self-sufficient, encouraging companies to perform them on a more frequent basis. On-going, rolling audits provide continuous feedback loops on process breakdowns as well as give management a sense of whether any improvements related to the audit findings are having an impact.

Lastly, companies should never view a profit recovery audit as a one-off proposition. The true value of a profit recovery audit is to provide a platform for continuous improvement.



CONCLUSION

As CFOs expand their roles as strategic business partners, conducting a profit recovery audit is becoming an essential tool not only to save money but also to identify financial leaks going forward. While recovering cash is a priority of profit recovery audits, leaders are using the insights to pinpoint system problems and address those issues.

KEY TAKEAWAYS FROM THIS WHITE PAPER

- **The value of profit recovery audit extends beyond the profit recovered. Transforming the process can help alleviate future leakage.**
- **A profit recovery audit is a low-touch and high-reward exercise when outsourcing to the right partner. There is no investment upfront, and the recovered profits go directly to the bottom line.**
- **Some on your team may be reluctant to participate in profit recovery audit, fearing it will point out inadequacies. This can be overcome with support from leadership.**
- **With the proper planning, execution, partners and technology, audits can be a positive experience that is also financially lucrative.**
- **There is significant ROI beyond cash recovery: With the right approach and partner, your organization will experience better contract compliance and provide valuable insight into how to be a better partner to vendors.**

ABOUT THE SPONSOR

PRGX helps companies spot value in their source-to-pay processes that other sophisticated solutions didn't get to before. Having identified more than 300 common points of leakage, we help companies reach wider, dig deeper, and act faster to get more value out of their source-to-pay data. We pioneered this industry 50 years ago, and today we help clients in more than 20 countries take back \$1.2 billion in annual cash flow. It's why 75% of top global retailers and a third of the largest companies in the Fortune 500 rely on us.

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