

A Director's Guide

Hidden Gem: Effective expense management

A Guide for Financial Directors



 **access**

Part of the **knowledgebank** series



Dear Fellow Director,

In a cost-cutting environment, expenses are often the first area to come under fire. And while monitoring and pruning spend may bring immediate results, close attention to the actual expense management process could bring greater benefit in the long term.

There are, as this guide explains, a number of reasons why organisations incur additional and often unnecessary costs in this area. For example:

- Laborious manual input of expenses information (e.g. credit card statements)
- Inconsistent supply of information leading to errors
- Claims falling outside 'agreed' parameters
- Multiple and time-consuming approvals
- Systems not geared to re-claiming VAT

This article explains how process automation can remove some of these pains by managing workflows, centralising information and imposing tighter controls.

I trust you will find this article of interest.

A handwritten signature in black ink, appearing to read 'John Beech'. The signature is stylized and fluid.

John Beech, MD, Access Accounting

Keith Rodgers says finance professionals are wrong to ignore the benefits of automating expense management.

Executive summary

How strategic can you really get about expense management? Frequently seen as something of a tactical side issue, it's usually viewed as an administrative and compliance matter – a fairly simple end-to-end process that starts with the submission of a claim and ends with the preparation of payroll data. As far as financial activities go, it's not exactly one of the most complicated – and it's certainly not the first thing organisations think about automating.

That common perception, however, ignores a bigger picture. Manual expense management systems tend to be both fallible and wasteful – they eat up administrative resource when spreadsheet data has to be re-keyed into financial systems, and they rely too heavily on overworked line managers to monitor them. As a result, errors – deliberate or otherwise – tend to get missed, and the audit trail can be hard to follow.

In the right circumstances, automated systems can take the pain out of many of these process problems by managing workflows, centralising information and imposing tighter controls.

Just as important, manual systems rarely give you the tools you need to look beyond policy enforcement and analyse the way money's being spent. By contrast, automated systems generate lots of valuable data, and as it accumulates, it provides organisations with the information they need to analyse spending patterns and adapt their procurement policies.

These process and management information factors have been assessed in a special report, 'Expense Management: From Efficiency to Effective Procurement', published by Webster Buchanan Research, in association with Computers In Personnel and Expense on Demand.

The report points out that expense management systems are available both as standalone systems and as individual components of larger business suites. The focus of these systems differs – some are designed as high-level 'concierge'-style services for executives to plan business trips, for example, while others are more focused on managing the end-to-end expense process.

As well as being sold in packaged applications, a number of providers also offer hosted expense management services. In this 'on demand' model, the provider sets up, manages and maintains the application offsite, while employees, line managers and the finance department access it remotely through a web browser.

One big advantage of the hosted approach from an IT perspective is that it removes many of the hassles of running a system and also makes it easier to deploy, since no software needs to be installed or maintained on employees' PCs and laptops.

Some providers also offer additional management services such as random claims checking, which help to enforce compliance.

From administration to analysis

At a purely transactional level, rolling out an expense management system or service can usually generate some level of quantifiable benefit. In larger organisations, automating the entire end-to-end process may enable companies to eliminate roles for dedicated expense clerks or other finance personnel.

The impact won't always be quite that dramatic, but other benefits include:

- Improving the quality of data. Instead of re-entering data from spreadsheet-based claims into an accounting system, data can be entered directly into a central system. Reducing the amount of rekeying should improve data accuracy.
- Improving the flow of data. With web-based self-service functionality, employees can check the status of their claims online, while workflows can be configured to deliver quick notification about why individual items are being queried or rejected. This can cut the volume of telephone queries made to the finance department.
- Greater flexibility and ease-of-use. Using a web-based application, employees can enter data over the internal network, remotely from their laptop or from a handheld device. The easier it is to input data, the more likely it is that employees will enter information regularly, which helps keep financial records up-to-date.
- Greater consistency. Automated systems make use of pull-down menus to identify expense types, bringing greater consistency to data entry and making it easier

While these administrative efficiencies are important in their own right, expense management systems really come into their own in providing better control over expenditure.

The problem with most traditional control systems is that they tend to be reactive and ad hoc – organisations may centralise some purchasing and recommend specific suppliers for travel or hotels, but they typically rely on employees and their managers adhering to guidelines about what types of expenditure will be approved and spending thresholds. The bulk of the control comes in post-event, manual approvals, when the money has already been spent – that puts a lot of pressure on line

managers, who may not have the time to analyse claims effectively or be willing to get involved in administrative disputes.

Modern systems allow finance teams to configure rules so that claims can be automatically rejected or queried if they breach pre-defined parameters. They can also be set up to automatically approve smaller purchases below a certain threshold, freeing managers from dealing with relatively insignificant sums.

Some research indicates that organisations which embark on expense automation projects achieve average savings of around 10% through better compliance. Just as important as the practical benefits is the perception of better control. Simply by setting up an automated system, organisations spread the message that they're monitoring expenses more closely, which helps to modify behaviour. By instilling a culture of compliance, organisations can help to alter purchasing behaviour before money is even spent.

The technology options

If you're looking at the different expense management systems and services on the market, several factors are worth keeping an eye on. As well as accessibility and ease of use, key components of an expense management system include:

- **Web-based access.** This gives employees the chance to enter data wherever they are, whether in the office, on the road or from home. Bear in mind that it's not just having browser-based access that matters – it's the design of the interface as well. You don't need a flashy screen to enter data – it needs to be usable and logical to ensure accuracy.
- **Flexible process management.** It's important that workflows can be easily set up and adapted as needs change. One of the advantages of a centrally run 'hosted' system is that it allows organisations to implement both process and policy changes immediately, since the software only has to be adapted once.
- **Effective policy management.** Expense policy can be enforced through a number of design features. Drop-down menus enforce standardised data entry, while systems can be configured to query or reject individual line items according to preset parameters (based on role, region, expense category, etc). Like the workflows, it's important to ensure that these items can be easily amended.
- **Reporting and analysis.** Most systems come with a selection of pre-installed reports and tools to build custom reports – the former should allow basic analysis of expense and time by category. The drill-down capability is particularly important, since this will help isolate individual issues and also generate more granular reports.
- **Integration to other systems.** Easy integration with financial, payroll and HR systems is a fundamental requirement.

In addition, expense management systems can be configured to generate reports that help management understand where and how money is being spent and take steps to reduce costs. By calculating how much is spent on car rental from different suppliers, for example, it may be possible to cut costs by striking deals with a small number of preferred suppliers; similarly, there are savings to be had in high-value items such as air travel or hotels by consolidating procurement.

This doesn't just benefit large organisations: in some cases, expense management service providers can offer these kinds of discounted services to smaller organisations by aggregating their different clients' claims and using that combined purchasing power to negotiate discounts with suppliers.

This kind of information can even inform HR decisions. Organisations with large mobile workforces, for example, may be able to cut down on mileage costs by analysing spend patterns and relocating individuals to different base locations.

Employee perspective

AAs with any automation project, there are caveats, not least because the successful implementation of an expense management system depends on employees, line managers and the finance team all using the system properly. So design factors such as accessibility and ease-of-use are key. The more usable the system is, the quicker the uptake will be.

It's also important to convince employees that expense management automation isn't just about imposing top-down control. That means marketing some of the benefits.

One advantage of a central system is that it provides useful information for employees as well as the finance department – just as self-service payroll applications allow you to see your past pay history, for example, so centralised expense management systems can give employees access to previous claims.

Finally, other potential employee benefits include faster reimbursement (since automation typically speeds up the end-to-end process), better communication about claim rejection, and access to information for tax compliance purposes.



- *Keith Rodgers is director of Webster Buchanan Research. This article is extracted from 'Expense Management: From Efficiency to Effective Procurement', a special report published by Webster Buchanan Research in association with Computers In Personnel and Expense on Demand. The full report can be downloaded at www.websterb.com/hcinsider.*
- *If you would like more information about this article or any of the products or companies mentioned in the article, please contact us at info@evaluationcentre.com.*

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