

eBook

The Evolution of Recovery Auditing

The Recovery Audit Spectrum

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Introduction | The Industry

Where the Industry is Currently

The typical recovery audit begins with the assessment of a business's financial transactions, as well as the related data and operations to identify and recover various forms of erroneous payments, over deductions, and under deductions from suppliers.

A recovery audit is typically used to ensure payment accuracy and eliminate financial leakage; often discovering errors and having to correct them. **But what is not as commonly known is that when leveraged correctly...**

Recovery Audits can be the first step in a larger process of elevating a business's operational efficacy and efficiency.

Recovery audit firms often tout how they help people get from reactive to proactive... *But what does that really mean? What would that look like?*

The issues getting in the way of companies creating proactive solutions stem from stagnant processes that stop at diagnosis and do not implement tools or procedures to help avert financial loss before it happens.

Where the Industry Should Be

People in the industry talk about how recovery auditing can also serve as a way to uncover areas of opportunity through "root cause analysis." Recovery auditing firms say they can provide actionable insights that improve financial processes... but they often fall short in helping companies prevent errors and financial leakage from happening in the first place.

Post-audit recovery may be the start of the process, but clients are increasingly expecting more.

The future of recovery auditing will require these key components:



Accelerating the Review



Getting as close to the transaction as possible



Ultimately leading to error and leakage prevention

The Recovery Audit Spectrum

Overview

Many firms approach recovery auditing differently, but they all fall somewhere on the Recovery Audit Spectrum. **The Recovery Audit Spectrum defines varying degrees of maturity of the recovery auditing approach.**



PART I | The Traditional Approach to Recovery Auditing

Because the traditional approach recovers cash after transactions occurred, the timeline for making recoveries can vary from months to years, depending on how far behind the transaction the review takes place. **Each recovery audit firm has its own unique technology and methods of capturing leakage**, so businesses - particularly retailers - often enlist a secondary external recovery audit firm (in addition to their primary firm) to identify, capture, and recover financial discrepancies.

However, even with some level of “root cause analysis,” the **retroactive nature of recovery auditing can still leave businesses vulnerable to future errors.**

That is why it’s crucial to move towards acceleration and real-time audits. By reviewing transactions closer to when they actually occur, **a more proactive state opens the door to minimizing issues, errors, and disruptions** while ultimately building a more preventative posture.



Role of the **primary** recovery auditing firm:

Catch the majority of leakage and expose any vulnerabilities.



Role of the **secondary** recovery auditing firm:

Use its own tools and processes to expand the scope to review 100% of suppliers, finding additional recoveries.

Typically, the primary external firm will review ~80% of suppliers then hand off the transactions to the secondary recovery audit firm.

PART II | Accelerate Audit Activity

What is Acceleration?

Acceleration is an approach to recovery auditing in which businesses choose to bring the review process **closer to the point of transaction**.

WHAT THIS MEANS

Instead of waiting one or **two fiscal years** after the transactions have occurred, they might be reviewed one or two quarters after they have occurred.

*Note: There are different ways to approach an accelerated recovery audit. A business may choose to **audit by claim type**, **split the audit by time** (all vendors reviewed in a set time period) **or split by vendor** (vendors reviewed during their specified settlement time period).*

WHY IT'S BENEFICIAL

Settlements become easier because the data is **more readily available** as the buyers are typically still in their role and have not closed their books yet.

This helps to **avoid any confusion or negligence** allowing you to **resolve the issue immediately** versus having to backtrack and recover information from years ago.

Benefits of Accelerating Audit Activity Closer to the Transaction

The goal of acceleration is to:



Create greater value



Improve supplier relationship



Make process improvements easier

This can be achieved through a straightforward shift of the recovery audit schedule closer to **when the transactions actually happen or even to real-time**.

Whether the review happens quarterly or semi-annually, acceleration's purpose is to **put money back into the business faster** by reviewing financials faster.

PART II | Accelerate Audit Activity (con't)

Benefits of Acceleration



Improve vendor relationships.

Accelerated recovery audits **make the lives of your vendors easier**... because when the vendor only has to look back ~one month for information versus digging up information from two years ago, they're much more likely to enjoy working with your company.



Empower operational efficiency.

When you double the speed to claim production, you're enabling better alignment between trading, finance, and vendors. Identifying errors closer to the transaction essentially acts as **a rapid feedback mechanism that empowers you to improve your processes and tools** and **evaluate the success or failure of those improvements in real-time**.



Capture more profit than you would with a traditional recovery audit.

In addition to improved vendor relationships, **time-restricted vendors can now be reviewed within the contractual timeline**, increasing your likelihood of actually being able to recover the financial leakage.

With accelerated recovery audits having **twice the speed to claim production**, **companies see a much higher claim acceptance rate and far fewer paybacks**.

Because everything is in real-time, mitigation of financial discrepancies and margin loss become quicker and easier.

What can Acceleration look like?

With a traditional audit schedule, recoveries are **not found until much later** after they've occurred.

As to where with an accelerated audit schedule, there are a few ways you can move up the review process, which in turn **recover financial leakage much faster** than you would with a traditional recovery audit.

How you can move up the review process:

- Accelerate the Primary External and Secondary Audit Review
- Accelerate the External Review to In-Year
- Internal Recovery Support

PART II | Accelerate Audit Activity (con't)

1

Accelerate the External Primary and Secondary Audit Review

- Many businesses complete the fiscal year in December or January followed by a few months to close out their books. This time period can take up to 7-8 months after the fiscal year closes. Meaning, it could take until July or August for the primary external firm to begin its review of the transactions.
- **When you accelerate this process, you are simply moving the start time of the primary external firm** from July or August to right after the fiscal year closes around February. Because the audit activity is moved closer to the transaction by 6 months, **this increases the chances for the primary external audit firm to uncover errors and successfully resolve claims at a much faster rate.**
- Once the primary external audit firm completes all its work, it can immediately hand off the review to the secondary audit firm. By establishing this rolling handover schedule from the primary to the secondary, the retailer **accelerates the speed of potential secondary recoveries significantly.**

2

Accelerate the External Review to In-Year

If your business does not have an internal recovery audit team, firms like FlexTecs can conduct in-year audits -- one quarter behind the transaction on a rolling basis -- for you. Because this happens internally, meaning before handing the audit off to the primary external audit team, **your organization does not have to make any changes to your external firms**, therefore an **in-year review provides the maximum benefit of acceleration.**

PART II | Accelerate Audit Activity (con't)

3

Internal Recovery Support

Even if you're not ready to invest in an entire team, you can instead invest in **an audit technology platform (ATP), which can enable your team to audit internally**. These tools are custom-fit to your unique environment and help you make sense of your transactional data, bridge operational gaps and streamline the claim production process.

For example, there are tools on the market that enable you to:

- **Contextualize your transactional data** - Having data is one thing, but understanding what it means is an entirely different story. Having **a tool that pulls your disparate data sources into a single view** is one way to accelerate your recoveries and drive toward prevention. FlexTecs built FlexTools to do just that.
- **Capture more information that will aid in recoveries** - The number one communication medium companies and vendors use is email. Having **a tool that can search through thousands and thousands of emails, pulling out key information that aids in the claim process** can be a critical element of acceleration. We built a tool called FlexEmail that integrates with numerous email providers (Outlook, Gmail, etc.) to identify additional claims by allowing users to auto-flag specific criteria.
- **Keep track of the status of your claims** - Half the battle of making recoveries is keeping track of all of the moving pieces. Having **a tool that empowers internal and external audit teams to manage documentation and track audit claims, while facilitating collaboration with vendors** via a vendor portal can be extremely useful. We built a tool called FlexTrack to solve this problem.

Because an accelerated review of transactions captures payment errors more quickly, it can help businesses become more efficient by uncovering opportunities to prevent financial leakage.

PART III | Prevention

The best way to **maximize your bottom line is to prevent financial errors** from happening in the first place. That's easier said than done...and while most recovery audit firms claim to help their clients get to a more preventative state, the fact that most of those same **firms charge on a contingency basis** makes that claim hard to believe.

The idea of prevention is frequently talked about, but rarely realized.

What is prevention? What does this look like?

When companies talk about prevention, they always talk about the *idea* of prevention. When we discuss prevention, we discuss our two methods that help build prevention programs within businesses:

1. Immediately **eliminate the issue and not allow the claim to occur in the first place.**
For example, Automation helps eliminate human error for standardized processes.
2. When a mistake has happened, we **catch the error within payment terms** (i.e. net 30)

How to adopt a more preventative posture?

- **Post-audit recovery** → Audit a cycle of transactions.
- **Accelerate the audit to real-time** → Speed up the process to bring claims up to date.
- **Prevent errors + leakage** → Incorporate or build tools that integrate with your current tech environment to fill the gaps.

Tip: Incorporate custom-built technology that addresses operational errors found in root cause analysis. As an example, you could ask a company like FlexTecs to create a tool that identifies and stops duplicate payments before they even get out the door.

PART III | Prevention (con't)

Benefits of Prevention

	Traditional Recovery Audit	Accelerate to Real-Time	Prevention
In-depth review	✓	✓	✓
Uncover errors + leakage after the transaction	✓	✓	✓
Recover past 1-2 years	✓	✓	✓
Recover financials closer to the transaction		✓	✓
In-depth review of vendors		✓	✓
2x the speed to claim production		✓	✓
Lower cost of recovery		✓	✓
Improved cash flow		✓	✓
Immediate elimination of issues			✓
Error detected before payment is made			✓

Incorporating preventative measures doesn't mean you abandon all other recovery audit functions. Post-audit recovery is still necessary because some claims have to be made post-transaction.

However, the majority of claims can be accelerated or even prevented. By incorporating preventative measures, you create more efficiency within your operations. **You are still conducting post-audit recoveries but allowing acceleration and prevention to make the process much easier.**

Conclusion

The Power of Acceleration + Prevention

The well-established and retroactive nature of the recovery audit industry doesn't necessarily leave organizations better than it found them. Though they can recover a lot of money for companies, the organizations are left with the same problems of outdated processes and the risk of making future errors.

Between supply chain disruptions, complex regulations, and growing security concerns, **it's important that your recovery audit firm has your best interest as a priority -- it's important that they are not only identifying errors and recovering missing income but optimizing your financial operations.**


Accelerating your recovery audit schedule to real-time and transforming your operations into a prevention program takes time. It may feel overwhelming at first, but **with the right partner with the capabilities and technology, it is possible to evolve from fixing errors to never allowing them to happen in the first place.**

About FlexTecs

FlexTecs is a technology-enabled financial services firm that businesses turn to when they want to mitigate risk, connect the dots across disparate data streams, and grow more profitability by reducing operational errors. We believe that recovery audits are only the first step in a larger process of elevating businesses' operational efficiency. That's why we help complex enterprises **catch yesterday's errors, correct today's errors, and prevent tomorrow's errors.**

Connect With Us

NORTH AMERICA

 1201 Peachtree Street
Suite 1110
Atlanta, GA 30361

EUROPE

 Units 18/19
Dallam Court
Dallam Lane
Warrington
WA2 7LT

APAC

 140 Paya Lebar Road
#10-09 AZ@Paya Lebar,
Singapore 40915

 info@flectecs.com

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