Cracking the Code on Expense Compliance
Table of Contents

3 Expense Compliance: Crack the Code
4 Tackling Internal Compliance
7 Meeting External Compliance
10 So, How Can You Drive Greater Compliance?
14 How Cloud-Based Technology Can Help Solve Compliance
15 In Summary
Expense Compliance: Crack the Code

Getting a better handle on employee expenses is top of the agenda for many UK businesses today. A heightened focus on HMRC tax compliance, legislative changes and economic uncertainty in light of Brexit has pushed many finance leaders in businesses of all sizes to take a closer look at their current spend practices.

81% of finance leaders don’t have complete visibility over employee spend such as expenses.¹

They’re examining whether employees are complying with travel and expense (T&E) guidelines to help the business keep costs down. And they’re also investigating if their expense processes would stand up to scrutiny. Most companies are looking to technology to help automate manual, time-consuming expense tasks. The most forward-thinking however, are exploring how new developments like machine learning and AI can transform the way employee spend is managed to not only save time, but ensure a high level of both internal and external compliance.

Let’s explore employee spend compliance and uncover some of the ways you can crack compliance in your business.

WHAT IS MEANT BY COMPLIANCE?

Compliance can be daunting, for finance and employees alike. It appears to imply firm rules and regulations using a hard-line approach. Yet compliance doesn’t have to result in a bad experience for employees. With the right tools and checks and balances in place, the expense process can be made simple for employees while still giving finance the visibility and control it needs.

Internal Compliance refers to employees within a business following T&E rules as prescribed in the company policy. Intentional expense fiddling or unintentional errors are identified and addressed. This may help the business achieve greater compliance with external guidelines.

External Compliance concerns a company’s adherence to statutory and HMRC regulations governing business practices and taxes. This could be examined by internal auditing teams as well as “the tax man”.

68% of finance leaders aren’t completely confident that employees comply with T&E policies.²

¹ Vanson Bourne, 2017. Connecting the Dots on Travel, Expense and Invoice Spend
² Vanson Bourne, 2017. Connecting the Dots on Travel, Expense and Invoice Spend

© 2019 SAP SE or an SAP affiliate company. All rights reserved.
Tackling Internal Compliance

COMPLIANCE BEGINS WITH GOOD POLICIES
Companies of all sizes in the UK rely on travel and expense rules to provide advice on how much can be spent and in which circumstances. A good company-wide policy sets the ground rules and offers employees a clear framework so that they always know where they stand. This helps the business keep spend down on what is typically the second largest operational cost after salaries. It also helps to ensure compliance with numerous legal regulations.

It’s entirely up to the business what goes into their policy, but in general a clear and enforced policy includes:

- Details of what is and what is not reimbursable
- Business travel guidelines
- Mileage and fuel rates for reimbursement
- Personal expenditure rules that cover situations, amounts and what is specifically excluded

PEOPLE ARE AT THE HEART OF POLICY
A well-thought-out policy is half of the battle. You then need an effective strategy to make employees aware of it – and persuaded to abide by it. But as many businesses know, therein lies the real challenge. Most employees can’t recount the basics of their T&E policy. After scanning it when they first start, it’s typically then forgotten about. In fact, even the teams who are responsible for implementing T&E policies can’t be expected to remember all the rules.

Employees mostly want to do the right thing by the company. So in many cases, exceptions to a policy indicate more of a need to update a policy or rethink the way it’s implemented rather than to discipline the ‘violators’. Having simple-to-follow processes makes it easy for employees to be compliant.

1 in 5 employees consider it acceptable to exaggerate expense claims.¹

¹ YouGov, 2015. Expenses, HMRC and VAT in a Nutshell
THE EMOTIVE SIDE OF T&E
Business travel is a very personal experience for employees. They find themselves away from their homes and families – and often out of pocket. They know that it’s important to comply with the company policy, but considering that most employees don’t have a good idea of what’s contained in their policy, they often feel a sense of dread when it comes time to submitting their expenses. And when submitting claims, they’re never quite sure how long it will take for reimbursement to occur, especially if the process is cumbersome.

WHY EMPLOYEES FIDDLE EXPENSES
Then there are those who may see expenses as an extra source of income. Take for example that 20% of employees in a YouGov poll said that it’s acceptable to exaggerate expense claims – that’s one in every five employees! Not only that, Millennials and Generation Z, especially those between the ages of 18-24, are even more inclined to think it’s normal practice (28%). Here are the top four reasons employees gave for fiddling their expenses:

1. Forgetting to put in a claim in the past (68%)
2. Because ‘money is tight’ (32%)
3. Because they knew they could get away with it (18%)
4. To supplement a low salary (13%)\(^4\)

The chances of employees fiddling their expenses are further exacerbated if they don’t agree with the company T&E policies or if they perceive them to be unfair.

IS CORPORATE CULTURE DRIVING BAD BEHAVIOUR?
When employees don’t follow policies, it may not always be about the individual’s inclination towards honesty versus fraud. It can actually be a reflection of the working culture in which they find themselves. Fostering a positive culture of policy compliance is the first step towards achieving greater control.

If a culture exists where boundaries are pushed and policies are seen as just a ‘guide’, then overinflated and out-of-policy claims are sure to follow. And if approvers never challenge suspicious claims, then it’s not unreasonable to expect some employees to chance a few extra items on their claim. Over 99% of managers approve expense claims regardless of whether they meet the business’s expenses policy or not.\(^5\)

Without proper policing, internal controls that once existed may erode over time and increasingly questionable behaviour can creep in.

\(^4\) Concur, 2013. Do People Exaggerate Their Expenses Claims? Test Your Knowledge
\(^5\) YouGov, 2015. Expenses, HMRC and VAT in a Nutshell
ADDRESSING POLICY COMPLIANCE
So what should businesses do? The answer involves taking a dual approach. First, get to understand the existing corporate culture and enable positive change by encouraging and enforcing the right kind of behaviour. Second, use technology to understand whether people are complying with the policy and make it easier for people to submit expenses in the right way.

99% of managers approve policy expense claims without question.⁶

Here are some quick ways of encouraging expense policy compliance:
• Train your managers on how to query an expense and how to engage with employees on out-of-policy spend.
• Emphasise the importance of policy compliance by explaining the benefits of booking with corporate preferred providers.
• Set standards and lead by example.
• Explain how complying with the policy will help the business. For example, explain which expense types require VAT receipts for reclaiming tax.

“Most companies have formal policies but they’re high-level documents stored on the intranet and aren’t referred to or adhered to. Our policies are now built into SAP Concur and they are very granular and specific so we can be consistent about what is and isn’t allowed and stop policy breaches.”

– Luke Braham, Head of Technology Operations, RED. Read the Case Study

Meeting External Compliance

THE SHIFTING REGULATORY LANDSCAPE IN THE UK

Britain has what are considered to be the toughest anti-bribery laws in the world. Since 2010, paying bribes in cash, goods or entertainment to gain business is a criminal offence and carries an unlimited fine and even up to ten years imprisonment. What constitutes a bribe may not always be obvious though and expenses may easily be claimed for illegitimate spend.

At the same time, the MP expenses scandal and heightened focus on spending misdemeanours has been highlighted in the press. The increased attention on questionable fraudulent claims like duck houses and double rent has caused many companies to look inwards and address their own expense practices to check what may be hiding in the closet.

HMRC COMPLIANCE: THE IMPORTANCE OF GETTING IT RIGHT

All businesses operating in the UK have a legal obligation to meet statutory compliance when managing and reporting on their expense spend. The cost of not complying can be very damaging – especially for growing businesses looking to raise their brand and profitability.

An HMRC investigation can also negatively impact a company’s reputation as well as hit their bottom line due to the large size of potential fines coupled with the dedicated resources needed to deal with the issues.

To this effect, HMRC has clear definitions of what a business expense is, what constitutes business travel and when an expense becomes a benefit in kind. It is essential that companies are aware of the relevant rules governing expenses and that they keep abreast with the constant changes in regulation.

Take a deep dive and download our comprehensive guide to Expenses, VAT and HMRC Compliance in the UK.
WHAT ARE HMRC INSPECTORS INTERESTED IN?
If you find yourself graced with an HMRC inspection, you can expect that they’ll review your whole expense process for weaknesses, but typically they will focus on the following six areas:

- That you have a clear and enforced policy in place
- That the appropriate approval processes are set up
- That you regularly collect all the right documentation
- That you have the appropriate checks and controls built into your process
- That you are consistently compliant with various tax and VAT legislation
- That you have a robust and secure payment process in place

WHERE DO COMPLIANCE CHALLENGES CROP UP?
Based on research, mileage is not only the most common expense type, it’s also the most fiddled. And with UK employees travelling over ten billion business miles a year, keeping track of mileage can be a real issue for both companies and travellers alike.

Only 13% of managers look into the validity of mileage claims.

It’s incredibly difficult to measure mileage accurately. It takes a lot of time to work out and it’s not always straightforward to discern between business and personal miles. Employees may overestimate or roundup their mileage to save on time, to account for rising fuel costs if they feel the reimbursement rate as advised by HMRC’s Advisory Fuel Rates is not fair, or if they feel they are being short-changed in other expense areas. They may also do so because it’s perceived to be the easiest expense to inflate as the finance team find it equally tricky and time-consuming to calculate.
But when reporting to HMRC, your mileage calculations need to be spot on. Without a tool helping you to automate the process, you’ll find HMRC have the upper hand and will be able to trace incorrect claims far quicker than your team and penalties will be sure to follow.

**CREATING A COMPLIANT AUDIT TRAIL**

One of the best ways to make HMRC’s (and your) life easier is to ensure there is a clear paper trail to substantiate all employee expense claims. And the more digital your process is, the simpler the auditing process becomes. When expenses are captured electronically, they are far more searchable, so HMRC don’t have to trawl through endless scraps of paper to make head or tail of it all. Having all your records online is also a great way for the finance team to access historical data quickly and efficiently.

With the new [Making Tax Digital](https://www.gov.uk/government/organisations/ hmrc) legislation, expenses are another area of your total tax record that the government requires businesses to digitise, so streamlining this process sooner rather than later can save you hassle further down the line.
So, How Can You Drive Greater Compliance?

1. ADOPT TOOLS EMPLOYEES LOVE TO USE
   The first step towards implementing an effective process is getting employees on board. Systems that are easy to use, that guide users at each stage, and importantly, cut down on time wasted, are sure to create a community of evangelists. Employees already use a host of smart apps in their personal lives, so the more you can incorporate current technology into their work processes, the better compliance you are likely to achieve.

MOBILE SOLUTIONS
   Mobile technology is transforming the world of expense management. For instance, employees can use their smartphones to take pictures of their receipts and immediately upload them to an expense report while still at dinner, in the taxi or up in the air. Intelligent machine learning such as Optical Character Recognition (OCR) technology goes a step further to read the data on the receipt and automatically prepopulate expense line items so employees just have to review and submit. Approvers can also sign off claims while on the move, speeding up the process for all concerned. In fact, mobile technology has been shown to reduce the time it takes employees to submit and approve expense claims by 28%.

Employees using mobile apps save 4 1/2 hours a month on average.

Mobile solutions drive compliance because they guide users to make the right choices, helping them to adhere to corporate policies and eliminating some of inevitable human errors that sneak in. In addition, mobile users have a 91% compliance rate to T&E policies compared to their non-mobile peers (59%).

9 SME Insider, 2015: How Mobile Technology is Changing Business
10 Aberdeen Group, 2010: T&E Expense Management in a Mobile Age
11 Aberdeen Group, 2016: The Essential Guide to Managing Expenses in the UK
INTEGRATED CREDIT CARDS AND SUPPLIER FEEDS
Another capability employees will thank you for is integrated credit card and supplier data. Company credit cards and preferred travel suppliers like Uber, Airbnb, BA and many more, can be linked with the SAP Concur expense management system so that spend data is automatically imported across, ready to be included in expense claims. This can save employees significant time on manual data capture and ensure greater data accuracy in the backend.

Some systems sync corporate card data only monthly, and some as frequently as daily. Ensure your tool reconciles data frequently to ensure faster processing times.

MILEAGE TRACKING
As accurate mileage tracking is crucial to ensuring accurate claims, you can offer your employees a few ways to track car mileage without hassle. An integrated app, such as Concur Drive, can automatically track distance travelled via GPS. Users simply review their business trips and easily generate a mileage claim that’s accurate down to the mile. Integrated Google Maps can also be used to work out mileage.

This enables finance to analyse common routes to help save on costs, while ensuring the right amount of VAT is being claimed. At the same time, it prevents exaggeration of mileage, helping deter employees from making fraudulent claims while ensuring that the company is meeting its obligations to HMRC.
2. IMPLEMENT SOLUTIONS THAT GIVE FINANCE GREATER CONTROL

Along with creating a great employee experience, an effective solution will simplify the expenses process by giving the finance team greater visibility and control. At a minimum, the finance team should be helping the business to reclaim the VAT it’s owed from employee expenses. But to accurately claim this, you need to know whether an expense has an element of VAT liability and at what percentage. To further complicate matters, tax rules are changing all the time.

Take for example car parking charges: when vehicles are parked on the street, the claimable VAT rate is zero, but when parked in off-street car parks, you can claim the full 20% back. Are you recording where your employees are parking? If not, HMRC could come down on you for submitting fraudulent VAT claims.

“The managers who approve expenses can actually query them – which we couldn’t do in the past because it was so paper-based.”

- Karen Golden, Head of Finance, Roy Castle Lung Cancer Foundation. Read the Case Study.

INCORPORATED VAT RULES

Expense management tools can help minimise the risks around regulatory compliance as they automatically apply complex tax rules, so your team don’t have to remember them all. VAT is worked out for every expense type so you can get more cash back from HMRC without falling foul of legislation. Laws like the UK Bribery Act can be centrally incorporated into one online policy framework then pushed out to all employees, automatically factoring in currencies, exchange rates and international tax rates and regulations. Features like attendee tracking steer employees to provide the necessary information upfront so you can ensure complete company compliance.
“As an FD it’s important to know that you are keeping up to date with changes in HMRC rules. With SAP Concur, as a SaaS solution providing appropriate compliance updates, this process is far easier to manage.”

- Alex Clemence, FD at Blue Chip Data Systems. Read the Case Study.

AUDITING SERVICES
You can also take the pressure off your finance team by outsourcing auditing tasks like receipt and policy compliance. Industry professionals can help you validate all the required fields on receipts before they’re submitted, ensuring they comply with HMRC tax reclaim regulations. Issues can even be directly resolved with the employee without burdening your finance staff. Expense claims can be verified and cross-checked against existing policies to ensure broad-scale compliance with minimal hassle. Follow up reports can also help you identify trends in employee behaviour so you can take corrective action.

VISIBILITY AND REPORTING
Any business wanting to improve compliance needs to have visibility into employee spend at their fingertips. Automated solutions help businesses access centralised data in order to report accurately on spend both internally as well as externally to HMRC.

With the finance function being expected to provide greater strategic insights, it’s imperative to be able to tap into instant reports that provide business intelligence on spending trends, irregularities and even possible fraud. This should also illuminate opportunities to strengthen internal policies and predict future spend.

This level of insight and control makes enforcing the policy much easier as you can identify problem areas and take instant corrective action much sooner. Whether that’s hundreds of standard reports based on best practice, or customised reports and insights that you need for your unique business, ensuring you use your data to get the bigger picture is a key role of the successful finance leader.
How Cloud-Based Technology Can Help Solve Compliance

In light of the sheer complexity expense processes bring to the finance team, modern technology offers a powerful mechanism to improve efficiency for the people claiming, approving and paying expenses. Using a cloud-based tool can help ensure that people claim the right amount on expenses every time, and that these are checked and reimbursed within the recommended guidelines and to HMRC standards. It can empower finance leaders and controllers to drive down overall T&E costs and cut out human error and fraud.

Finance teams need to monitor, record and cross-check expense trails across a number of payment methods, currencies, fluctuating exchange rates and regulatory frameworks. A cloud-based model reduces an organisation’s dependency on employees by offloading the number-crunching and data storage into the cloud. Not only that, it can save the business time by making the end-to-end process far quicker and simpler for its employees who often spend hours after work and over the weekend claiming expenses due to the arduous process of many manual processes. While this has a positive effect on job satisfaction, the best part is that the finance team finally gets the control and compliance that comes with having a single source of spend.

Watch how Malvern Instruments has tackled compliance in its business.
In Summary

The secret to encouraging appropriate spending behaviour is finding the right balance between people, policy and your compliance needs. If people are informed and encouraged to comply with a fit-for-purpose policy, and a consistent approach is applied across the business, success is likely to follow. This is especially true if the business has invested in best-of-breed expense management technology. Both finance teams and employees at large are guided through the process at every step and technology such as mobile apps and intelligent machine learning make it a much quicker, pain-free experience. If the solution is easy to implement and manage, businesses can keep both initial and ongoing costs low, but more importantly, they can help to manage the risk from the ever-changing landscape of regulatory compliance. With all this in mind, how do you feel your employee expense processes currently stack up?

If you’d like to talk to a member of our team about the right technology fit for your unique business set up, call us on 01628 645 100 or visit www.concur.co.uk/compliance.
ABOUT SAP CONCUR

SAP® Concur® is the world’s leading provider of integrated travel, expense, and invoice management solutions, driven by a relentless pursuit to simplify and automate these everyday processes. With SAP Concur, a top-rated app guides employees through every trip, charges are effortlessly populated into expense reports, and invoice approvals are automated. By integrating near real-time data and using AI to audit 100% of transactions, businesses can see exactly what they’re spending without worrying about blind spots in the budget. SAP Concur eliminates yesterday’s tedious tasks, makes today’s work easier, and helps businesses run at their best every day. Learn more at concur.co.uk or the SAP Concur Newsroom.

Follow SAP Concur

Learn more at concur.co.uk