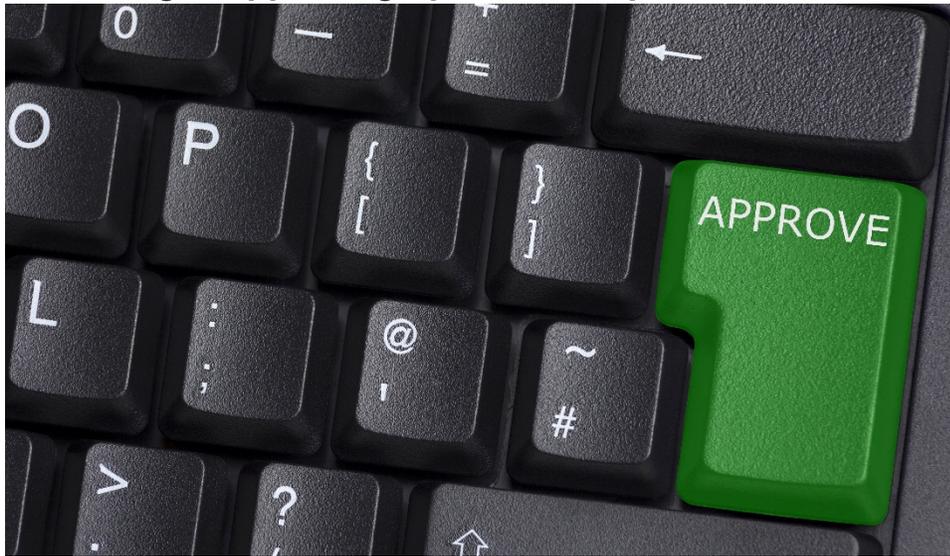


Reviewing & Approving Spend: A Corporate Finance Guide



by: Ann Marie Svoboda
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I have been teaching finance teams about Financial Approval lately. And after a few hours leading these sessions, it occurred to me that I have never *personally* been trained on how to process an approval. Instead, I've just learned by watching my bosses approve things over the years.

That approach seems very dangerous. Now that I'm in a senior role, I approve a huge portion of my company's investments and expenses. And what if, during my years of boss observation, I hadn't grasped the right practices? Or what if my bosses had bad habits, and I latched onto those? I could be wreaking havoc and not even know it (not to mention jeopardizing my own future employability).

Luckily, I have worked for some good bosses, and it turns out that I have done a good job controlling spend and investment over the years. Nevertheless, not everyone may be so lucky in their boss-adjacent education. So I thought Financial Review & Approval would be a good subject for a blog post.

Financial review and approval is a key component of a company's internal control processes. Such controls typically include segregation of duties, most likely ensuring that two or more people are involved in reviewing and approving investments and expenses. In most internal control structures, the approval process is designed to supervise accuracy, communication, reliability, and compliance around the spend request and approval process. And since specific spend requests are often cross-functional and/or international, that supervision can be complicated.

This complication is why financial approvers must be adequately trained.

Now, I'm sure there are hundreds of ways to explain the process of financial approvals, but I thought it would be easiest to apply a mnemonic acronym; specifically a **RACE CAR**.

Now you may be wondering why I chose RACE CAR. The image of a race car while discussing financial approvals probably seems very disjointed. But this will only seem disjointed if you have never seen a purchase order approval for a race car.

I, however, have seen such a phenomenon. And I can tell you that this particular race car PO's financial review and approval did not follow any of the guidelines we are about to study. In fact, the request to purchase the race car did not occur in a company operating in the automotive industry, it was not related to some racing team promotional sponsorship, nor was the race car for company use. The request was, in fact, fraudulent, processed through the company's records for the personal benefit of a company executive. That executive eventually went to jail. And this is why I think the mnemonic acronym RACE CAR works well for this tutorial. (I suppose I should also point out that I didn't actually approve this race car purchase; I merely saw the PO during my work with the turnaround team.)

So let's break down the acronym. When conducting a financial review of spend and investment requests, you should evaluate each of the following concepts.

REASONABLE

Make sure that to scrutinize the spend request in context. Do you actually understand what the request is for? If the request is not clear, and you cannot understand the request without using undocumented assumptions, then reject it.

Similarly, think about how the spend fits with your company's current strategy. For example, imagine that the request relates to a big sales conference in Latin America, and you know that Latin America has an aggressive growth target this year. Applying that knowledge will support the assessment of reasonableness. In that context, an increase in requested spend versus the previous year for that sales conference would not surprise you.

ACCURATE

Once you understand the context of the request, you should then review the easy stuff. There are many different reconciliations to review here. For example, does the requested spend amount match the backup? Is the listed cost center correct? Is the request documented in the correct currency? Has the requestor used the correct form (assuming your company has specific forms that need completing when requesting certain types of spend)? Is the vendor name accurate? - - I'm sure you can think of many more things to tick and tie here.

COMPLETE

A similar review concept is to ensure the request is complete. You've already surmised that the request is reasonable, but does the documentation support this knowledge? Spend requests must include enough documentation to validate their reasonableness.

In my financial review, I always like to imagine that a year from now, someone shows up and asks me why I approved this particular spend request (and god forbid it was actually for a race car). I know that I do not have the mental capacity to remember why I approved something a year ago. So the request must be properly documented in order to support my future review and memory recall.

EXPENSIVE

This is the layer where financial expertise is useful. As a financial professional, your review must consider if the requested spend is too expensive. This consideration first starts with a comparison to the budget. If the requested amount is the same as an approved budget amount, then it's probably not too expensive.

It is similarly appropriate to review the requested amount in comparison to the prior year's actual spend. If the requested amount is only adjusted for inflation, then that is another indication that the requested amount is not too expensive.

COMMUNICATED

One of the purposes of an approval routing procedure is to ensure communication. It may not be important to notify numerous people that you approved the electric company purchase order. But unusual or material items, such as a purchase request for a race car, may need special handling.

When providing financial review and approval, it is always important to consider both who has approved the request before you and also who will review it next. This allows you the opportunity to recognize who hasn't seen, and similarly who should be aware of the unusual and material items. For example, you should understand the request's impact on forecasted profitability and cash flow. If the impact is material and unplanned, then you must discuss that activity with your financial planning team.

AUTHORITY

Probably the most obvious step in reviewing a financial request is to understand if you actually have approval authority. Simply put, is the amount within your authority limit?

Similarly, you must understand how the activity aligns with company policy. You should assess if the request involves special terms (e.g., guarantee, prepayment, capital lease, embedded derivative) and review that in coordination with the related policy. If you aren't sure whether a special policy applies to the particular nuance in terms, reach out to someone within the functional area that would know.

In short, do not approve something without recognizing or consulting relevant policy.

REAL

As per my race car example, it is clear that every financial spend review should assess if the request is real. Never approve something that seems suspicious. Know that not every fraudulent purchase is as obvious as the race car. And since you are putting your personal reputation on the line in providing financial approvals, know that you have every right to be cautious. Don't approve something if the requestor is applying undue pressure, acting with condescension, or simply seem dubious. You are allowed to reject requests.

So these are the guidelines to financial review and approval. With the race car in mind, you can be thorough in your reviews and confident in your approval decisions.

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