Accounts payable controls are designed to help mitigate loss risk in the accounts payable function. Payables controls are broken down into three categories: the obligation to pay, entering the payables data into the system, and paying suppliers.

Obligation to Pay Controls

Invoice Approval

With this control, the person who has the authority to approve payment signifies
that he or she approves of the supplier invoice. This control is relatively weak if the approver only sees the supplier invoice, as there is no way to tell if the goods or services were received, or if the prices charged were in line with what the contract originally states. The approver may also want to know which general ledger (GL) account is to be charged.

It is better for the AP staff to assemble the supplier invoice, authorize the purchase order, and receiving documentation into a packet, then stamp the invoice with a signature block. It should also include the account number to be charged, and then have the approver review it. This approach provides the approver with a full set of information to work with for better controls.

**Purchase Order Approval**

The procurement department issues a purchase order for all purchases the company makes. This practice essentially approves all spending before it has been made, which may prevent some expenses from ever materializing. Since the control requires a decent amount of work from the purchasing staff, they will likely ask staff members to request items with a formal purchase requisition form.

**Use the Three-Way Match Approach**

Someone in the payables staff will match the supplier invoice to the purchase order and proof of receipt before authorizing payment. This approach negates the need for invoice approval because the approval is based on the purchase order. It’s better than approved based solely on the purchase order because it verifies the receipt of goods or services. But this process can be painfully slow and if paperwork is missing, could easily breakdown, unless you have an electronic system in place that matches the vendor invoice with the receipt of goods against the purchase order.
Duplicate Payment Search

With a computerized system, there’s an automatic duplicate invoice number search, to prevent duplicate payments. However, if you’re still operating with a manual system, it’s a more cumbersome and time-consuming task. It requires an accounts payable clerk to search through the vendor file and unpaid invoice file to see if any invoice received from a supplier has already been paid. In many situations, the volume of incoming invoices makes this difficult, causing them to abandon duplicate invoice identification, which means paying for things twice becomes an increased risk.

Using an e-procurement system that integrates with accounts payable makes it much easier to implement obligation to pay controls.

Data Entry Controls

There are many ways to ensure all supplier invoices make it into the system, though each control has a varying level of success.

Record Prior to Approval

This control puts great emphasis on paying suppliers than it does on obtaining authorization to pay. In this method, all invoices are entered in the system together, so it’s best used when purchase orders are used to authorize purchases.

Record After Approval

This forces AP staff to verify the approval of all invoices before entering it into the system.
Use Invoice Numbering Guidelines

If one of the biggest issues in your organization is duplicate payments, then it’s important to make sure you’re using a system to make sure invoice numbers are recorded properly. Electronic systems check for duplicate invoice numbers to prevent duplicate payments, but if there is inconsistency in how those numbers are recorded, such as using 0000623 one time, and 623 another time, the system will not flag that as a duplicate. This issue also arises when there are dashes in the invoice number because 123-456 could be recorded with the dash, or as 123456 in the system.

Match to Budget in Financial Statements

If supplier invoices are incorrectly charged to the wrong department, it is possible that the department manager looking at the financial statements would find the discrepancy between the amount charged and the budget, bringing it to the accounting department’s attention.

Payment Controls

The majority of the controls listed here apply to payments by check, since that is still the most common method of payment. In the case of electronic payments, these controls aren’t as helpful, but you can still track payments in your accounting system.

Split Check Printing and Signing Duties

With this control, one person prepares the checks, and a different person signs them. This second set of eyes provides a cross-check to make sure the funds are there for payment, while still maintaining adequate cash flow.
Store Checks in a Locked Location

Any unused checks need to be stored in a locked location. Otherwise, they can be stolen and filled out fraudulently, then cashed. Any signature stamps used to sign the checks should also be stored in a locked location.

Track Check Number Sequence

To ensure there are no missing checks that aren’t accounted for, many companies opt to maintain a log that includes the range of check number used during a check run. This is helpful to determine if any checks in storage have gone missing. Keep the log separate from the unused checks, to prevent someone from stealing the log at the same time they steal the checks.

Require Manual Check Signing

As a company, you can require that all checks be signed. Though it seems like a good idea, it is a weak control because few check signers don’t dive into why the check is being issued, and rarely take time to quest the amounts paid. If your company chooses to use a signature stamp or plate instead, it becomes imperative to have a strong purchase order system. This allows the purchasing staff to become the de facto invoice approvers because they issue purchase orders early in the purchase to pay process.

Require Additional Check Signers in Certain Conditions

If a check amount exceeds a certain predetermined threshold, require a second person to sign the check. This control allows multiple senior-level team members the chance to stop a payment, in theory. In reality, introducing another step to the process doesn’t strengthen the control.
Strong internal controls throughout the payment process are the first step toward preventing costly errors that affect your bottom line. Streamlining the accounts payable department is one way to capture early payment discounts, allowing to save money to reinvest into the company or pad profits.

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