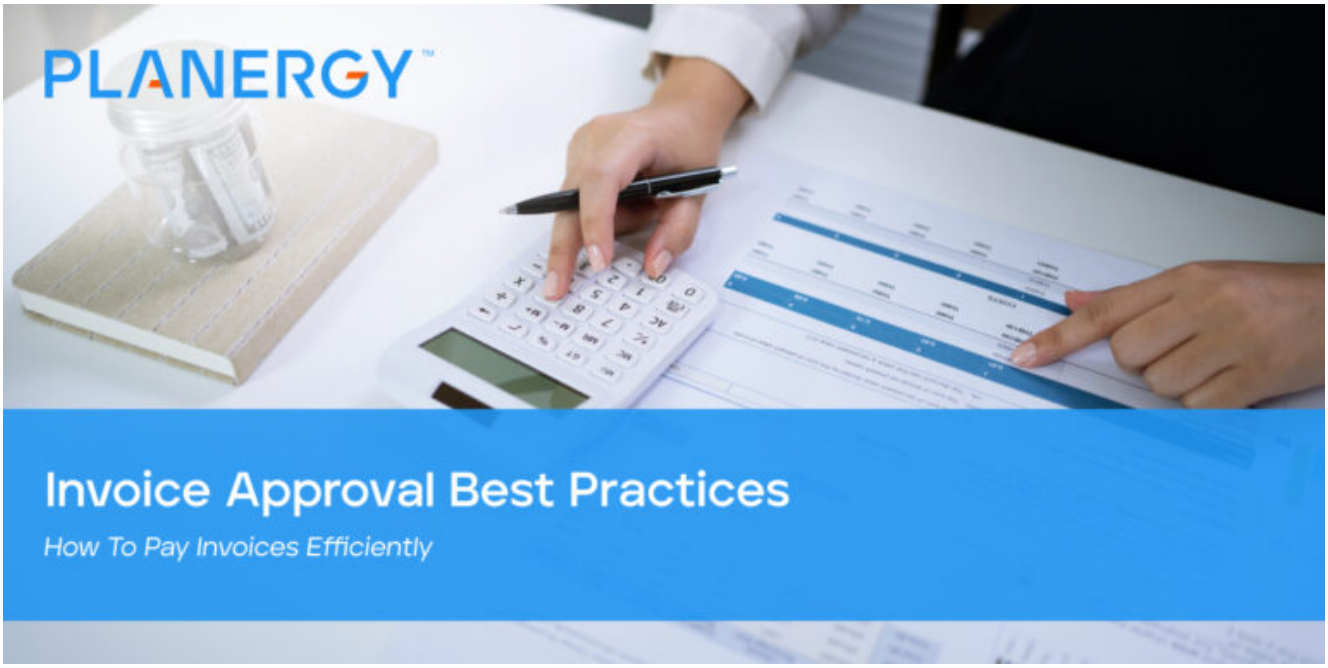
Invoice Approval Best Practices



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One of the most important parts of the AP process is ensuring that your vendors and suppliers are paid on time.

In theory, paying invoices sounds simple; you receive an invoice, validate the invoice, send it for approval, and pay the bill before the due date.

In reality, this process is often delayed, sometimes significantly, by a manual invoice approval workflow.

Using invoice approval best practices including automation can help expedite the approval process, ensuring that invoices are approved, and most importantly, paid on time.

What Is the Invoice Approval Process?

The invoice approval process is a series of steps or internal controls put in place to ensure that only valid invoices are approved and paid.

The invoice approval process starts when a product or service is purchased and continues when a vendor invoice is received for that product or service purchased.

Once the invoice is in hand, these internal controls need to be followed to approve the invoice for payment.

What Is the Purpose of Invoice Approval?

The invoice approval process is needed to control unauthorized spending, ensure that each department is adhering to a budget, and ensure only correct payments are processed.

This is particularly important in departments where managers are responsible for ordering items and services.

Without an approval process in place, there's little to protect a business from an employee purchasing unnecessary goods and services or even personal items that have no relation to the business.

Also, without controls on paying invoices you may pay duplicate invoices, invoices for items you never received, or pay more than was originally agreed with the supplier.

How Long Does It Take to Approve an Invoice?

Manually approving invoices can be a quick, easy process if you're only handling

a few invoices a week. However, as your business grows, so does the number of invoices that need to be processed.

Once a product or service has been delivered, an invoice is received and validated for accuracy and authenticity.

During the validation process, three-way matching should be completed, which is matching the invoice with a purchase order and shipping receipt.

If you’re not using a purchase order system or you don’t have a shipping receipt, the invoice will need to be validated in another fashion.

These are the steps that are typically taken during the invoice approval process:

1. ## Invoice Receipt

   This process may or may not be quick, depending on how an invoice is received.

   Today, an invoice can be mailed, emailed, sent electronically into an automated AP system, or faxed and may need to be printed for proper processing.

2. ## Invoice Verification and Review

   Invoice verification is necessary to ensure that the invoice is from a recognized vendor or supplier, with three-way matching used to verify that important data on an invoice matches the data on a purchase order and shipping receipt.

   Invoice data that needs to be verified include:

   - Vendor information
   - Invoice number
   - Purchase order number
   - Product or service description
   - Payment terms
   - Amount due

3. ## Exceptions Flagged

   If an exception is found, the invoice will need to be pulled for follow-up with providers or for additional internal checks.

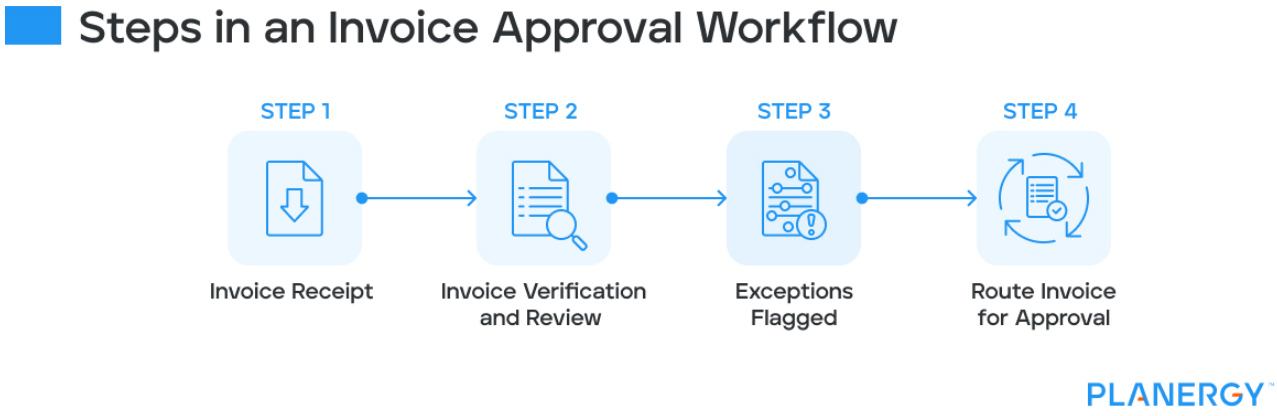
4. ## Route Invoice for Approval

   Once an invoice has been verified and the three-way match completed without any exceptions, the invoice is ready to be routed for approval.

   In smaller businesses, there is typically one approver, but companies with multiple departments may require two or more approvals for each invoice.

   When this is done manually, it can create significant delays in processing invoices, causing businesses to lose out on early payment discounts and possibly be required to pay late payment fees when payment is significantly late.

   The process isn't complete once an invoice has been approved. The invoice still has to be routed back to the accounts payable department, where it will be properly coded and entered into your accounting system to complete the payment process.



Who Should Approve an Invoice?

Who should approve an invoice depends on the AP approvals process you have in place for your business. In smaller companies, there is typically only one

approver, who may be the owner or the accountant.

However, in other businesses, approvers are typically assigned for each department, with second approvers often required for invoices over a specific amount.

What to Look for When Approving Invoices?

It's fairly clear what to look for during the three-way matching process. But what do you look for on an invoice if you don't have any secondary documents to compare it to?

This can happen quite often when a purchase order is not used. Items that should have a second look include:

- ## Vendor Details

  Even if you approve a lot of invoices, chances are you'll remember the vendor or supplier name more than any other detail.

  If it seems too familiar, make sure the invoice hasn't already been approved for payment. And if a vendor name doesn't sound familiar at all, make sure that it's a valid vendor and not potential fraud.

- ## Work Completion

  If the invoice is for a service purchased, make sure that the service has been completed.

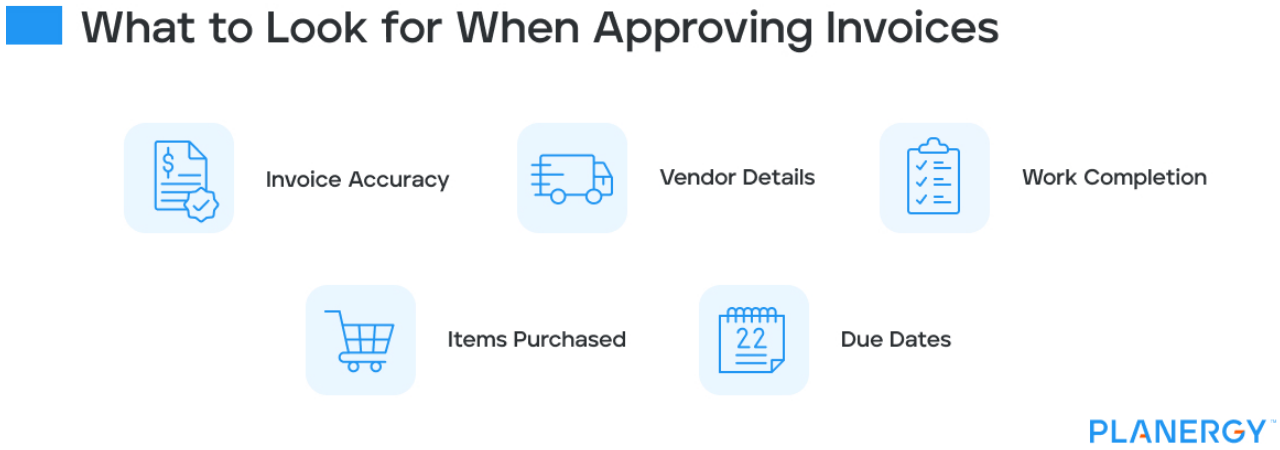
  For instance, if an invoice for a roof replacement lands on your desk for approval, the first thing you'll want to do is check with the project manager or other assigned staff member to ensure that the work has been properly completed.

Items Purchased

Take a closer look at what was purchased. Did you just approve an invoice for 5,000 widgets, yet you're looking at an invoice for another 5,000 widgets? In that case, the problem may not be with the vendor, but with the staff.

- ### Due Dates

  If you have a huge stack of invoices to approve and you know you can't approve them all, make sure that you prioritize the ones with a looming due date.



What Are the Benefits of an Invoice Approval Process?

The invoice approval process is used to ensure that all AP department staff follow the proper steps to get an invoice approved.

Whether your approval process is manual or automated, an invoice approval process:

- Helps identify potential exceptions and other errors before payment is made
- Keeps all relevant documentation (invoice, PO, and shipping receipt)

together
- Minimizes the risk of potential fraud
- Gives stakeholders a chance to review the invoice before payment



What Are Some Common Mistakes Made in the Invoice Approval Process?

One of the biggest mistakes small businesses usually make is not completing the three-way match before routing the invoice for approval, assuming that they'll be able to spot discrepancies without comparing documents.

Another major mistake is not emphasizing getting approvals completed timely. This is an issue that mainly impacts companies using manual invoice approval processes.

In many cases, an invoice can be three-way matched and routed for approval within a day or two, only to spend the next two weeks in the approver's in-basket.

When that happens, you lose the opportunity to take advantage of early payment discounts.

The longer the time an invoice spends on someone's desk, the more likely it is that will be lost or misplaced.

Should I Approve the Invoice Before or After Payment?

There is no point in approving an invoice if it's already been paid. Any invoice, even one that needs to be paid immediately, should be approved first.

Determining whether you should enter an invoice into your accounting system before approval or wait until it's been approved may be another issue that needs to be addressed.

There are benefits and drawbacks to both, but in most cases, it's better to wait until the invoice has been approved before entering it into the system.

This eliminates the need to adjust or void an invoice that has been entered for payment in error.

Why Should I Improve my Invoice Approval Process?

The best reason to improve your invoice approval process is if you're experiencing any of the following:

- Needing to download and print invoices that are sent electronically or via email
- Lost or misplaced invoices that delay approvals
- Increased number of invoices that are lost or misplaced during approval routing
- Inability to take take advantage of early payment discounts
- Late invoice payments resulting in fees or penalties

The best way to eliminate these and other invoice approval issues is to make the switch to AP automation, which can streamline the entire invoice approval process.

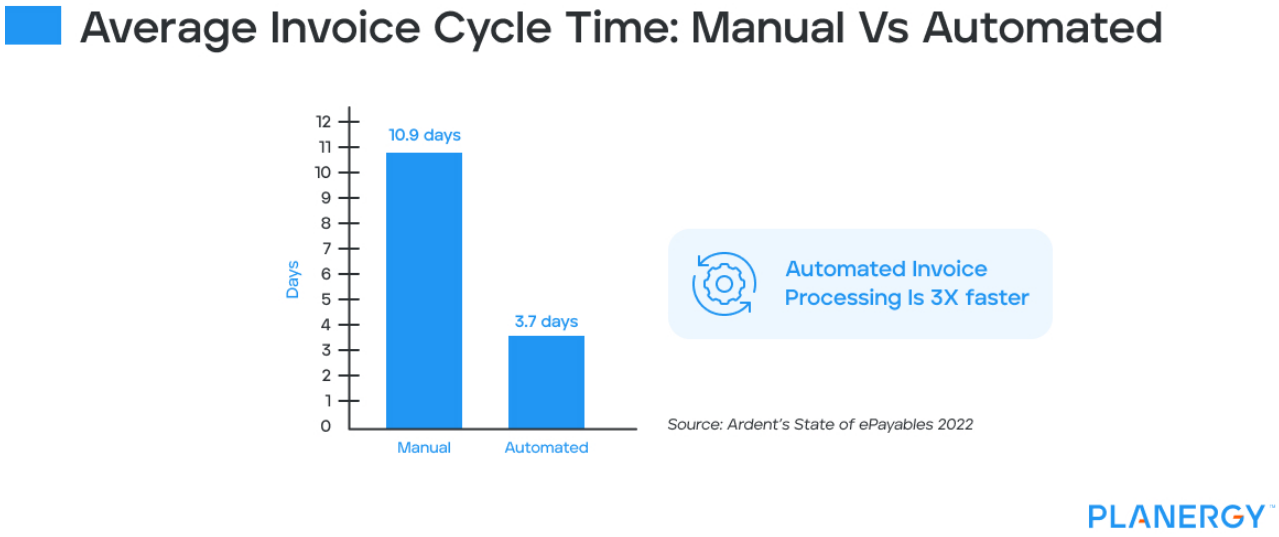
The Best Way to Improve the Invoice Approval Process Is By Automating

Accounts payable best practices should always start with an AP automation solution.

While it is possible to improve manual processes, automating the procurement process and accounts payable process, with an application like PLANERGY, eliminates manual data entry, automates time-consuming manual processes, and offers custom approval workflows.

In fact, according to Ardent Partners State of ePayables 2022, automated invoice processing is three times more efficient.

The impact on invoice cycle time is clear and this in turn increases the costs of processing an invoice.



The benefits of AP automation software include:

- ## Custom Approval Routing

  It can take days or even weeks to get an invoice approved manually. Think about how long it can take if your business requires its AP team to obtain multiple levels of approval for all incoming invoices.

AP automation lets you create a custom approval workflow process that directs invoices to where they're supposed to go, forwarding an approved invoice to the next approver automatically.

Custom approval workflows are also useful for approvals that are based on dollar amounts, forwarding only those invoices over a set dollar amount to the appropriate approver.

Automated Three-Way Matching

Three-way matching is a necessity. But the reality is that it's also a time-consuming process if you're completing it manually.

Automation handles the entire three-way matching process, flagging invoices that need manual review while quickly sending the other invoices along for approval.

Improved Reporting

Automating AP means that your accounts payable reporting will reflect accurate totals in real-time.

With manual approval processes, expenses are not accounted for until the invoice has been approved and entered into your accounting software application.

In the meantime, vital reports such as your cash flow statement will not reflect any of the expenses related to the invoices still sitting in someone's in-basket.

Inaccurate data makes cash flow management much more difficult.

Eliminate Lost and Misplaced Invoices

Paper invoices have a habit of disappearing. Whether they're routed to the wrong department, buried under a pile of papers, or inadvertently thrown away, lost or misplaced invoices can cost you plenty.

This includes missing out on early payment discounts and being hit with

late payment penalties. Consistently paying invoices late can even potentially harm a solid professional relationship with your vendors or suppliers.

Making the switch to an automated payables process eliminates both.

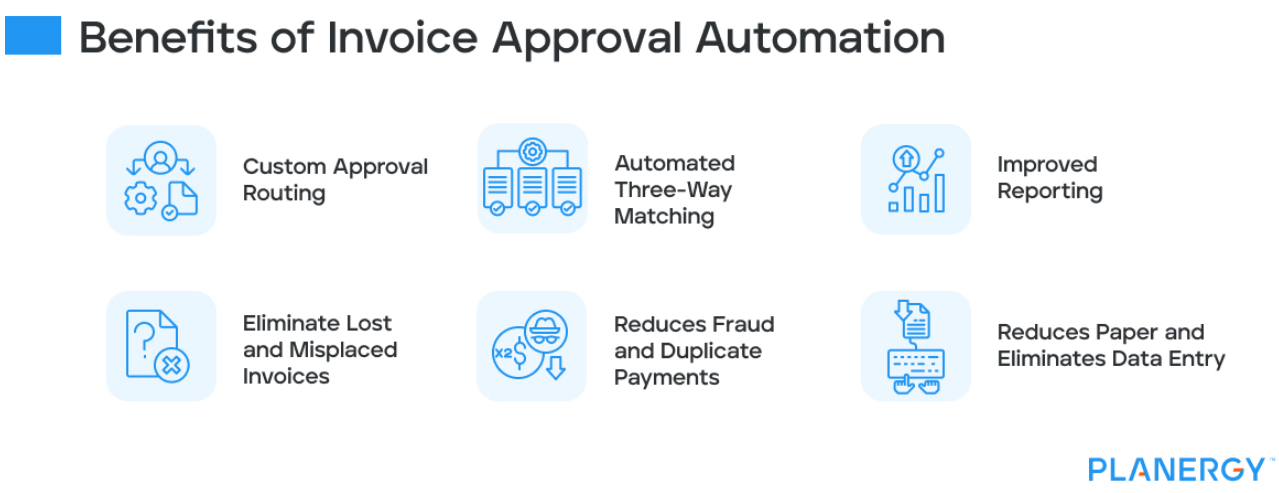
Reduces Fraud and Duplicate Payments

Having automated invoice approval processes in place will also help reduce fraud and eliminate errors including duplicate payments, which are usually a result of relevant documents not being properly reviewed.

Reduces Paper and Eliminates Data Entry

Whether you're using QuickBooks or using a sophisticated ERP system, going paperless significantly reduces the amount of paperwork your finance department needs to deal with daily.

And by using optical character recognition (OCR) technology and artificial intelligence (AI), invoices can be scanned directly into your accounting software application, eliminating the need to manually enter them, effectively reducing human error while freeing up valuable employee time.



Establish Internal Controls and Automate Where Possible

Proper invoice management should always include having invoice approval processes in place.

While accounts payable automation is the best choice for streamlining the invoice approval processes, even businesses using manual invoice approval processes will benefit from establishing and using these vital internal controls.

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