

# How to Improve Your Invoice Approval Process



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Despite the availability of accounts payable or AP automation software, the invoice approval process has stubbornly remained a manual process for the majority of businesses, particularly small businesses with less than 100 employees.

Even when using process automation, businesses often remain stuck in the past, creating P.O.s, approving invoices, matching documentation, and entering invoices manually.

But it doesn't have to remain that way. With improvements in data capturing, OCR technology, and automated workflow, automated systems make it easy to

streamline the entire invoice approval process, maintain an audit trail, and free your accounts payable department from mundane, time-consuming tasks.

## **What Is the Invoice Approval Process?**

The invoice approval process starts when an item or service is purchased and a purchase order or P.O. is created. Once the item is delivered, an invoice arrives soon after. Once validated, the invoice is routed to an approver or approvers.

This is usually done by forwarding the paper invoice to the approver, where it remains until approved. Once approved, the invoice is returned to the AP team, and the invoice information is manually entered into an accounting system for payment.

One of the biggest drawbacks of manually approving invoices is the delay in getting the invoice back to the AP department. But there are other challenges involved in manually approving invoices, including the following:

- Difficulty or delay in obtaining approvals when approvers are out of the office or working remotely.
- Increased risk of late payments and possible late fees charged.
- Delayed approval when AP invoice volume is large.
- Increased risk of duplicate payment or other human errors.
- Time-consuming hours worked copying emailed or downloaded invoices.

## **What are the Steps Involved in Invoice Processing?**

Though every business may handle the payable process a bit differently, there are a number of steps involved in the process. These steps do not cover the procurement process but instead, start at the time that the invoice is first received from the vendor.

### **1. Receive Invoice from Supplier**

If you are using manual processes this may include a mix of receiving physical paper invoices and emails with invoices attached. The invoices

will need to be sorted, stored, and retained for processing.

## 2. **Verify Data on the Invoice**

The first step in invoice processing is verifying the information contained in the invoice including the vendor, the date, contact information, purchasing details, and pricing. The verification process should include the three-way match, where you'll match the purchase order, receiving detail, and invoice to ensure accuracy and authenticity.

## 3. **Coding and Approval**

Once the invoice has been reviewed and all relevant documents are matched, the invoice should be coded to the correct general ledger account(s). Once coded, the invoice should be sent to the approver(s) for sign off. Approving an invoice prepares it to be paid, but will need to be approved for payment at a later date when you're ready to pay invoices.

## 4. **Enter Data in Financial System**

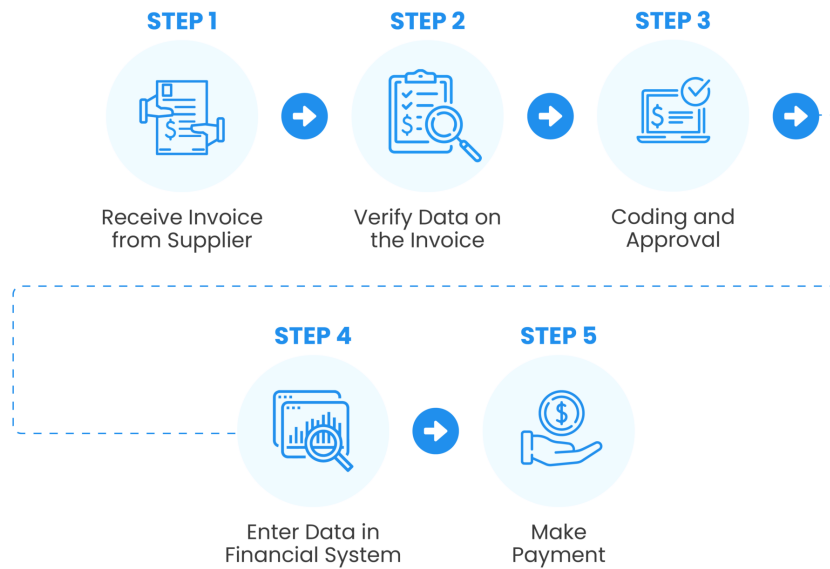
After receiving the approved invoice, it will need to be entered into your accounting system or ERP with the relevant data ready to be processed for payment. In a manual process this is a cumbersome, time-consuming, and error prone step.

## 5. **Make Payment**

Once the invoice is available in your accounting system it can be grouped with other approved invoices in a payment run. The payment should be approved separately before the payment is processed.

It's important that an AP report be run in real-time, with information reviewed for accuracy. This review can also help catch errors, so they can be corrected prior to a payment being issued.

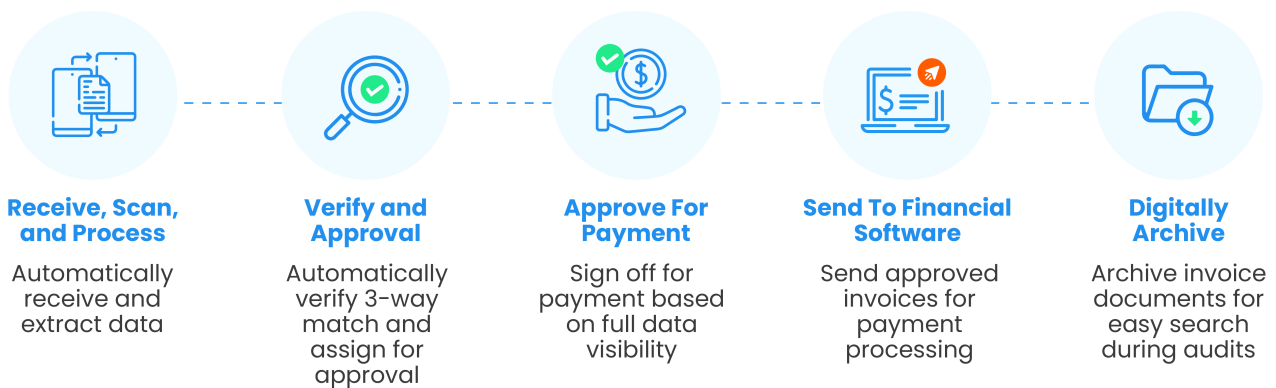
## Manual Invoice Processing



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Keep in mind that if you're using a procure-to-pay software like PLANERGY, or have automated your AP processes, many of the above steps will be completed automatically, in a fraction of time, with the added bonus of creating a truly paperless environment.

## Automated Invoice Processing



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# **What Is the Difference Between an Invoice and a Purchase Order?**

Even though a purchase order and an invoice contain much of the same information, they are two completely separate documents.

A purchase order is a document issued by the buyer that documents information such as products or services ordered, quantities, and pricing. Once complete, the purchase order is sent to the seller for approval. Once approved, the purchase order becomes a legally binding agreement between the buyer and seller.

An invoice is issued by the seller or vendor once the transaction noted in the purchase order is complete. The invoice, like the purchase order, outlines products or services purchased, quantities, and the agreed-upon price, but also includes information such as an invoice number and due date.

## **Do I Need To Validate Invoices?**

It is best practice to validate invoices to check them for accuracy.

For example, if the majority of your invoices are received with a corresponding P.O., an invoice received without a P.O. may need additional verification.

Invoice validation is especially important when dealing with complicated orders, where a more detailed review is warranted, which may include a review of pricing calculations, sales tax, and any agreed-upon discounts.

## **What Are the Best Practices for Invoice Approval?**

When looking to establish best practices for invoice approval, it's a good idea to consider investing in AP automation.

When looking at various applications, make sure that it includes an automated workflow option, which allows you to assign approvers to invoices based on your business needs.

For example, an invoice for postage may require a single approver since it's a regular expense, while an order for thousands of parts may need to be approved by several employees before it can be paid.

## ▪ **Workflow Should Start With Procurement**

Best practices for AP invoice approval should always start with purchases or procurement. While not all companies automatically align these two departments, doing so can create a much more efficient procure-to-pay cycle.

A strong purchase order approval process will ensure that when invoices match the PO then approval requirements for the invoice can be greatly reduced because the PO has already been through a robust approval matrix.

Though invoices such as utilities and insurance will not have a corresponding purchase order, products ordered or services requested should always have a purchase order created. It will also make the approval process more efficient if approval levels are built into your workflow, customizing the approvals based on company requirements.

## ▪ **Multi-Level Approval Workflow**

In many cases, invoices received by AP will require multi-level approvals. When completed manually, multi-level invoice approval can significantly delay payment, since once the invoice is initially approved, it has to be routed to a second party before it can be entered into the system for payment.

When being routed manually to multiple parties, there is also an increased risk of the invoice being lost or misplaced.

Not every order or invoice will need multiple approvals. But when using AP automation, you can easily assign multiple approvers based on the criteria you determine.

When creating an invoice approval workflow, it's also important that

approval timelines be built into the workflow, with reminders sent if an invoice is not approved by a specific date. It's also important to add backup approvers to your workflow setup that can be used when regular approvers are unavailable.

## • **Maintain Separation of Duties**

Generally Accepted Accounting Principles (GAAP) recommend that specific duties be separated and assigned to multiple staff members.

Whether you continue to process AP manually or make the move to automation, it's important to utilize internal controls that support the separation of duties in accounts payable.

When processing AP, for example, one staff member should approve an invoice, a second person should enter the invoice, and a third person should handle payment processing. Splitting these tasks among several people will help reduce or eliminate fraud as well as duplicate payments.

## • **Three-Way Matching**

Like the separation of duties, three-way matching is recommended for all invoices that reference a purchase order. Three-way matching requires AP clerks to match a purchase order and a shipment notification or receiving document to an invoice, with information on all three documents matching.

Whether you process AP manually or make the move to an automated AP system, three-way matching is a necessity.

## • **Separate Approval for Payments**

Linked to separation of duties, this ensures a final check is carried out before payment is made. Ensuring the check is carried out by a separate member of staff to the invoice approval will greatly reduce the risk of fraud.

## Best Practices For Invoice Approval



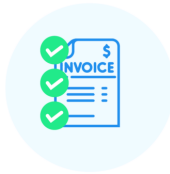
Workflow Should Start With Procurement



Multi-Level Approval Workflow



Maintain Separation of Duties



Three-Way Matching



Separate Approval for Payments

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# How AP Automation Can Make Your Life Easier

Automating your AP processes can make invoice approvals easier, starting with the verification process. These are just a few of the ways that using AP automation can streamline the AP approval process.

## • Customized Routing

It's rare that all invoices are routed to the same approver. Automating AP allows you to customize the entire invoice routing process. For example, standard expenses such as rent and utilities may be routed to one approver, while product orders may be routed to several approvers.

When setting up custom routing, you can even set dollar limits, choosing multiple approvers for invoices over a certain dollar amount. Customized routing also allows you to route invoices based on additional criteria such as vendor, department, or project.

Once invoice approval workflows have been set, your invoices will automatically be routed to the appropriate party(s), with a reminder sent

if the invoice isn't approved by a specific date.

For invoices that require multiple approvers, you'll need to first set the approval order, and once the first approver approves the invoice, it's automatically sent to the next approver.

## • **Improved AP Reporting and Analytics**

Centralizing and automating procurement and accounts payable in a central hub will give you the data you need to report more fully and accurately in real time. Improving the speed and accuracy of financial close is a key benefit of automating AP.

## • **Eliminate Lost and Missing Invoices**

This is what can happen when invoices are routed manually to approvers.

A vendor invoice is received in your AP department five days after the product was delivered. Jane, your AP clerk spends part of her day tracking down the receiving document to match with the invoice.

Receiving document in hand, she performs the three-way match, codes the invoice for entering into the system, and places the invoice in an inter-office envelope to be delivered to the production department manager for approval.

The production manager receives the inter-office envelope later in the day. She takes out the items she has been waiting for, sees the invoice, and places it in a pile of papers on her desk to address later.

Three days later, the invoice is now buried under other non-urgent documents. Jane calls the production manager about approving the invoice. The production manager says she will look for it and get back to her.

The next day, the production manager informs Jane that she can't find the invoice. Jane will now have to obtain another duplicate invoice from the vendor, eliminating the possibility of taking the early-payment discount.

Even worse, if Jane hadn't contacted the production manager, it's possible that the invoice would have remained buried on the manager's desk, until the vendor called looking for payment, and possibly imposing a penalty or late fee.

Automating the AP approval process also eliminates manual invoices and reduces processing costs while getting rid of the typical bottlenecks described above.

## • **Eliminate Paper and Manual Data Entry**

AP Automation uses optical character recognition (OCR) to scan the information on the invoice and automate data entry.

While OCR accuracy is limited; when it is combined with AI and upstream data the accuracy and efficiency can be greatly increased. Reducing the number of manual processes followed will help decrease the number of errors.

## • **Lower Invoice Processing Costs**

By automating and reducing the manual human involvement in the invoice approval process you can greatly reduce the costs of processing and approving invoices. Exceptions rates will be reduced and bottlenecks removed ensuring a smoother AP process.

## • **Improved Collaboration Between Finance and Procurement**

Automating the three-way matching process will help your staff work together. Depending on invoice volume, AP clerks can spend an inordinate amount of time matching invoices against purchase orders and receiving documents.

That all goes away with accounts payable automation since the application will automatically read and extract invoice data from all relevant documents, examining each document for errors or inconsistencies. If any errors are detected, the document in question is

flagged for manual review.

## • Better Visibility of Invoices and Payments

Centralizing data means members of staff that need to be given visibility on invoices and payments can be given access to do check. Solutions, like PLANERGY, give you granular control on what users have access to.

## • Reduced Risk of Fraud

According to the Association of Certified Fraud Examiners (ACFE)'s 2020 Report to the Nations, an average of 5% of revenue lost to fraud. This makes fraud prevention in accounts payable important for any company. Setting and automating the correct internal controls for accounts payable will greatly reduce your risk of fraud.

So you can give a head of department access to view only invoices related to their department but nothing else. This can take pressure off the finance team who would regularly be fielding queries about invoices and payments.

## Benefits of True Accounts Payable Automation



Customized  
Routing



Improved AP  
Reporting and Analytics



Eliminate Lost and  
Missing Invoices



Eliminate Paper and  
Manual Data Entry



Lower Invoice  
Processing Costs



Improved Collaboration  
Between Finance and  
Procurement



Better Visibility  
of Invoices and  
Payments



Reduced Risk  
of Fraud

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# Improve the Invoice Approval Process With Automation

Business processes matter, for you and your accounts payable team. No matter how organized your employees are, processing invoices using manual data entry can result in increased human errors. Manual processing can also lead to an increase in lost or missing invoices, and duplicate invoice payments.

Streamlining the invoice approval process with an AP automation solution means employees can concentrate on more important tasks than hunting down a missing invoice.

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- Learn about us, and our long history of helping companies just like yours.

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