Invoice Processing: Process Workflow, Approvals, and How to Improve It



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One of the most important business processes the accounts payable department is tasked with is processing invoices.

Whether your business uses a procurement system with purchase orders or you purchase products and services directly, it’s the job of the accounts payable team to ensure that all invoices received are properly processed.

What Is Invoice Processing?

Invoice processing is the various functions performed to ensure that an invoice is properly handled, from initial receipt to payment.

There are various steps involved in the invoice process workflow that should be followed.

What Are the Steps Involved In Invoice Processing?

There are three main steps involved in invoice processing, though the number of steps can vary depending on the degree of AP automation you use and whether you're processing invoices manually.

1. ## Invoice Receipt and Matching

   The first step in invoice processing is receipt of the invoice.

   Invoices are usually received in one of the following formats:

   - Paper-based documents that are mailed to your place of business
   - Electronically via email as an attachment or in the body of the email itself
   - An electronic document that is automatically read by financial software or a document management system
   - As a faxed document

   Unless your invoice is received directly into AP automation software, you'll need to match the invoice with a purchase order, if there is one, along with the shipping receipt or other acknowledgment that the product or service was received.

   If all documents match, you can enter the document into your accounting software application or send it on for approval.

   If you're using a procurement system like PLANERGY, you can enter invoice information immediately, since the purchase has already been

approved via the purchase order system.

If you typically order goods and services without a purchase order, you'll need to move to step 2.

2. Invoice Approval

For purchases without a corresponding purchase order, the invoice will need to be approved before making payment.

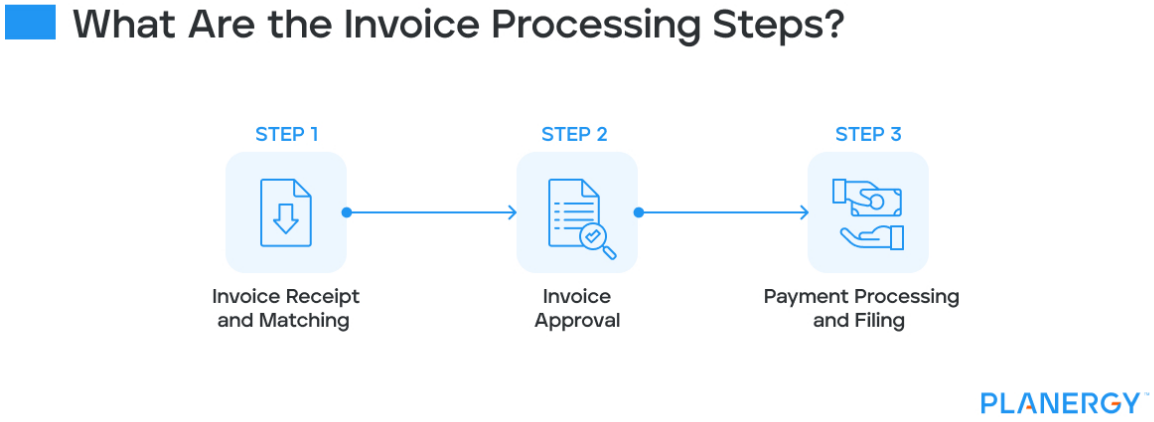
When using manual invoice processing, the approval process can cause extended delays, since the routine process is to route the paper invoice to approvers.

Unfortunately, when routing paper documents it's common for them to get lost, misplaced, or simply ignored, meaning it can be days or even weeks before it's routed to a second approver or back to the AP department for further processing.

3. Payment Processing and Filing

Once an invoice has been approved for payment, the AP department enters the information on the invoice into their accounting software application, including the following information:

- Vendor name
- Invoice date
- Invoice number
- Amount due
- Any discount if applicable
- Payment terms and due date



If entering this information manually, it's important that it be reviewed against the invoice to avoid payment errors and duplicate payments.

An outstanding payables report should be run weekly to ensure that all payments are processed before their due date to avoid any late payment fees or other penalties.

Once the payment has been approved, the AP department will process the payment, either electronically via ACH transfer or by paper check.

Ideally, electronic payments would be used in the majority of cases but paying by check is still very common.

If a paper check is used, the check will also have to be mailed in a timely fashion.

The paper check stub is then attached to the invoice and filed in the vendor's file.

If using an automated AP system, most of this can be avoided, since the document including payment details will be saved electronically.

What Are the Most Common Challenges In Invoice Processing?

There are several challenges AP departments face when processing invoices, including the following:

Data Entry Errors

The more manual data entry your AP team is forced to undertake, the higher likelihood of human errors.

While some of these errors may be inconsequential, entering an invoice number incorrectly can result in the invoice being paid twice while missing a number from an amount due can result in an underpayment or worse, an overpayment that you may have a difficult time recovering.

Delays with Invoice Approval

Mentioned earlier, once an invoice is routed to an approver, it can remain on their desk or inbox for days or weeks at a time.

For example, if you don’t have a designated backup approver, an invoice can sit a long time if the regular approver is out sick or on vacation, creating significant bottlenecks.

There’s also the very real possibility of an invoice getting lost somewhere along the way.

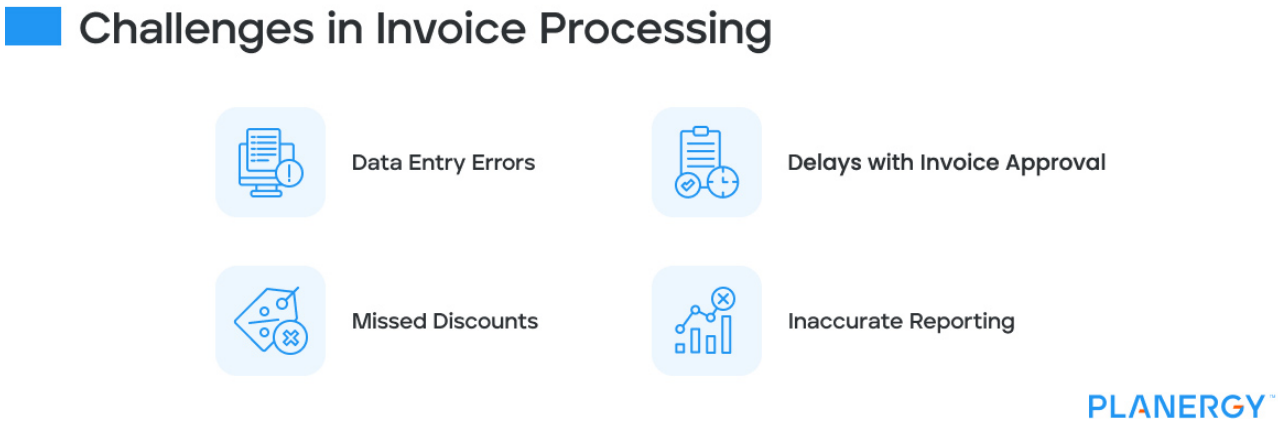
Inaccurate Reporting

The longer an invoice sits on a desk waiting for approval, the more inaccurate your financial reporting will be, resulting in understated payables, artificially inflated net profit and inaccurate cash flow totals.

Missed Discounts

How many discounts has your business missed out on because the invoice approval process took too long?

While a 2% discount may not seem like a lot, when added together, your missed discounts can have a significant impact on your bottom line.



What Is the Difference Between Invoice Processing and Invoice Matching?

Invoice processing involves everything from receiving the invoice to ensuring that it’s paid on time.

Invoice matching, otherwise known as two-, three-, or four-way matching, is part of the payable process but is considered a single step in the invoice process workflow.

What Is 3-Way Matching In Invoice Processing?

If you use a procurement system in your business, you should have a purchase order on hand for most of the invoices you receive.

The three-way matching process can be time-consuming if your business typically processes hundreds of invoices.

The three-way matching process uses the following documents and begins once an invoice has been received from the vendor.

1. ## Purchase Order

   The purchase order is the first document completed that provides details

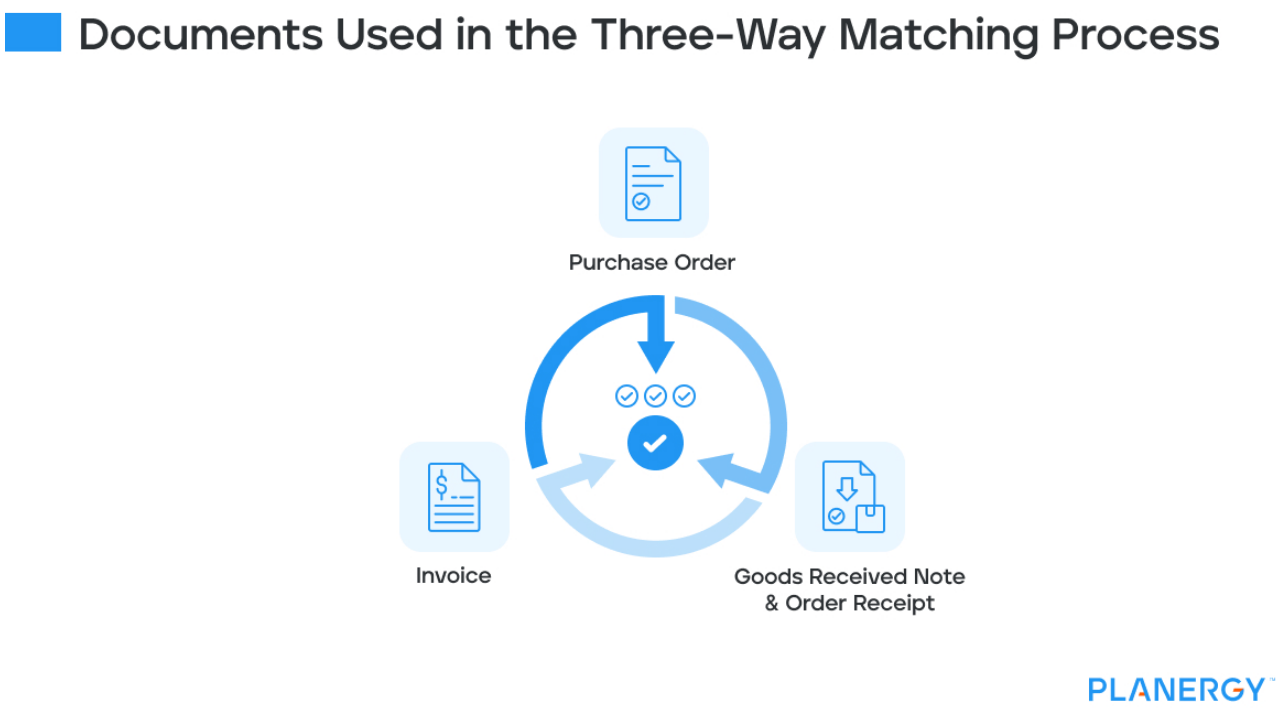
about the purchase and should include a purchase order number, the number of items purchased, the cost of those items, and a complete description of the items purchased.

2. ## Goods Received Note & Order Receipt

   The shipping receipt or packing slip is received with the shipped product and is used to verify that the product received is what is noted on the purchase order.

3. ## Invoice

   Once the order is fulfilled, the vendor or supplier creates an invoice that should include the purchase order number, items orders, cost, and due date.



Once an invoice has been received, it should be matched with the other two documents for accuracy.

If all relevant information such as price, amount, and payment terms match on all three documents, the invoice can then be entered for payment.

However, if an exception occurs, further investigation will be needed.

For example, if a purchase order shows that 50 wood bins are ordered and the shipping receipt shows that 50 wood bins have been received, but you are charged for 55 wood bins on the invoice, you will need to investigate further and possibly dispute the overcharge on the invoice.

The three-way matching process is essential in accounts payable but can be time-consuming for those handling hundreds of invoices regularly.

What Are Best Practices When Processing Invoices?

The keep your accounts payable department running smoothly, it’s a good idea to implement invoice processing best practices.

- ## Establish and Use Internal Controls

  Whether you’re an established business or are paying bills for the first time, creating internal controls for invoice processing and payment and using those controls is essential.

  These controls should include the following:

Creating System Access Control Levels for All Employees

Giving your employees complete access to your financial systems leaves you vulnerable to fraud in accounts payable.

Instead, provide employees with the access level they need to do their job, and nothing more.

Implementing Segregation of Duties

Segregation of duties gives different parts of the AP process to different employees.

For example, the employee that approves an invoice should not be the same

employee performing the three-way match.

In another example, the employee authorizing payment should not be the same employee that signs the checks or approves ACH transfers.

Very small businesses with limited resources may be only able to segregate AP tasks between two people, but a single person should never be solely responsible for approving, entering, and paying an invoice.

Reconcile Your Bank Accounts

You won't know if a vendor hasn't cashed their check if you don't regularly reconcile your bank accounts.

Even if most AP payments are issued electronically, keeping your bank accounts reconciled can help spot potential fraud or other unauthorized charges.

Prioritize Invoice Payments

Prioritizing payments to take advantage of available discounts while waiting to pay invoices with longer payment terms can be a useful strategy and can also help maintain adequate cash flow.

Always Check for Duplicate Payments

Duplicate payments can be an issue if you're still processing invoices and payments manually.

While you think you may recognize a duplicate payment immediately, if you tend to order the same products from the same vendor, it's highly likely that you'll receive invoices for the same amount.

Always review invoices for the same amount even if the invoice number is different.

This should be done before making a payment since it can be challenging to get a refund from a vendor for an overpayment.

Of course, the best way to handle invoice processing is to make the switch to an automated workflow.



What Is the Difference Between an Automated Workflow and a Manual One?

There are significant differences between a manual workflow and an automated workflow, with invoice processing software providing better invoice management and a more streamlined AP workflow.

Manual Invoice Processing	Automated Invoice Processing
AP receives an invoice in a variety of formats that can include paper invoices, faxed invoices, emailed invoices, and PDFs.	Invoice is received with invoice data scanned into the application using OCR technology to extract data into the software.
Once an invoice is received, it is routed to the correct department or individual.	Artificial intelligence and machine learning capability automatically match invoices, purchase orders, and receiving documents for validation.
AP department staff use the three-way match to validate every invoice with a purchase order.	Any documents that don’t match are automatically flagged for further review.

If a discrepancy occurs, the supplier or vendor needs to be contacted to provide additional details	Invoices that require approval are automatically routed to approvers electronically.
Invoices that require approval are routed to the approver.	Once approved, invoice information can be exported to an accounting software system.
Once approved, the invoice is then manually entered into the accounting system.	Payment is processed electronically to vendors and suppliers.
An Open Payables report is run to determine which invoices should be paid for the week.	
Once approved, the payment is processed by check or electronically.	
All related documents must be filed in the vendor file.	

Using automated workflow also provides several benefits over manual processing including:

- ## Improved Accuracy

  When AI and OCR technology does most of the work, human error decreases.

- ## Better Data Visibility

  If an invoice is sitting on someone's desk waiting for approval, that invoice is not reflected in your financial reports.

  Automated workflow gives you a real-time view of your finances and spending.

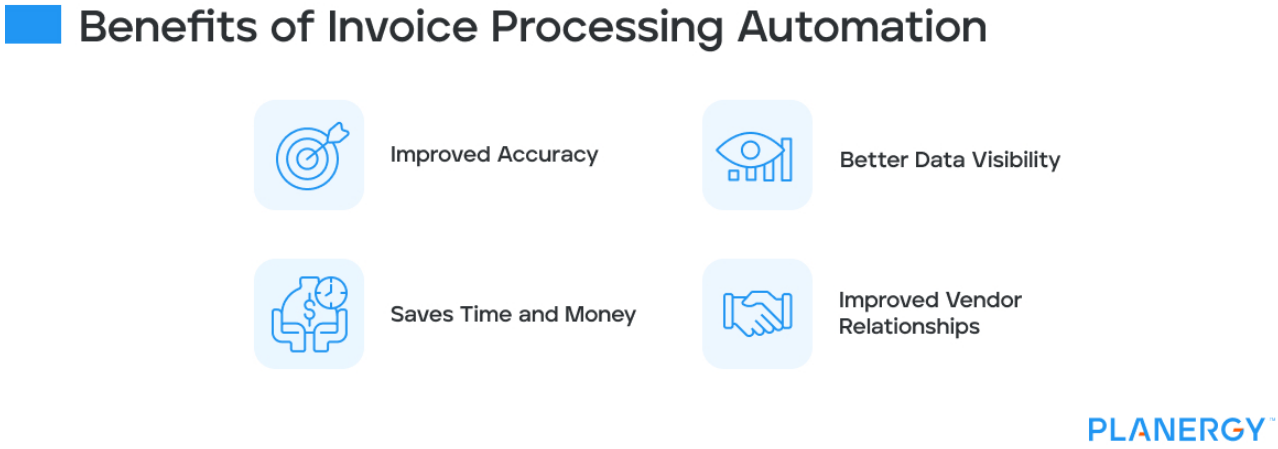
- ## Improved Vendor Relationships

  If your payments are frequently late because of processing delays, making

the move to an automated workflow system will likely improve your vendor and supplier relationships, and may even earn you an early payment discount.

- ## Saves Time and Money

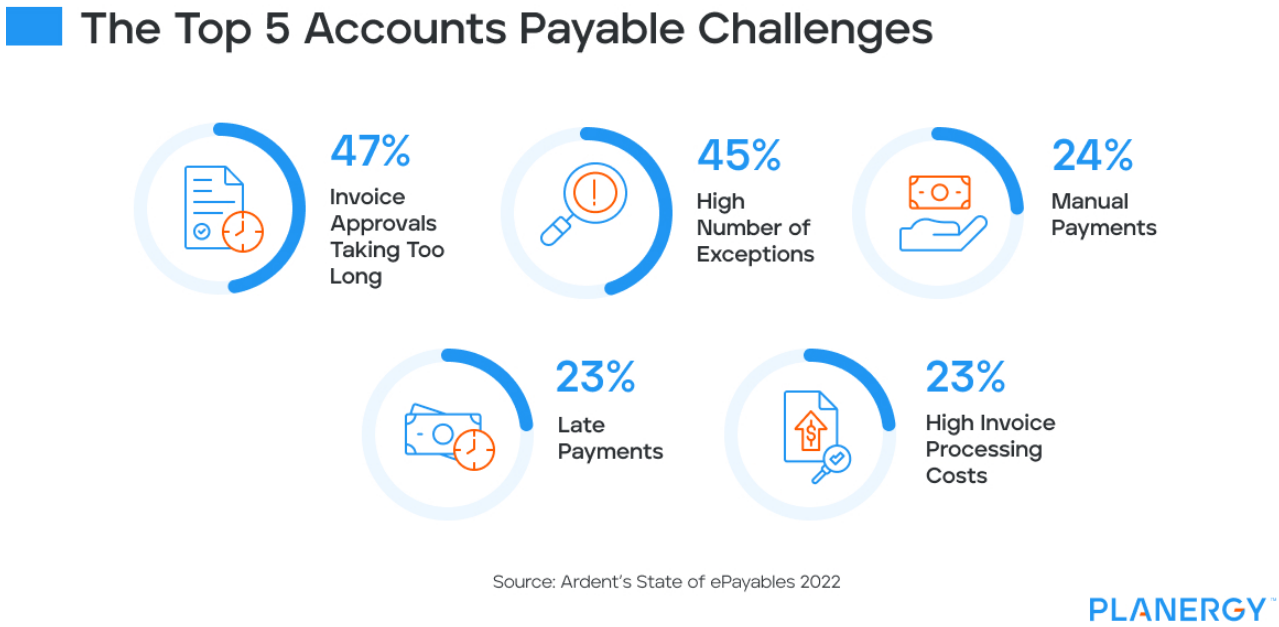
  Moving to an automated AP workflow can save your business both time and money.



How Does Automation Help With Invoice Processing?

According to Ardent's State of ePayables 2022, the top five AP challenges are:

1. Invoice approvals taking too long: 47%
2. High number of exceptions: 45%
3. Manual payments: 24%
4. Late payments: 23%
5. High invoice processing costs: 23%



Accounts payable automation addresses these challenges by invoice approval process, automating three-way processing, and eliminating manual payments.

In addition, automated invoice processing can significantly reduce the high cost of processing an invoice from an average of $10.18 to $3.12, while reducing invoice processing time from 10.9 days to just under 4 days.

The single most impactful thing your finance department can do to streamline AP workflow is to introduce a cloud-based AP automation software.

Though many businesses have taken the first step by introducing document imaging and scanning, less than 50% of businesses surveyed in the State of ePayables 2022 currently use a full procure-to-pay solution like PLANERGY.

Utilizing automation can bring value to your entire AP team, improving efficiency and reducing cost.

What's your goal today?

1. Use PLANERGY to manage purchasing and accounts payable

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