Zahara

A Guide To
**Invoice
Processing**

Introduction

At it again? Working through those loathsome month-end processes, keying invoices and chasing approvals, all the while sure there's *got* to be some kind of techy way to streamline all this…

You'd be right. And now is the time to get thinking about it.

Why is efficient invoice management essential?

Every business, no matter the size, processes supplier invoices. In the industry these are known as purchase invoices. They need to be well reviewed, accurately checked and then actioned. They also need to be stored for seven years to keep the number crunchers at HMRC happy. As your business grows, wading through all this becomes a slow process and the opportunity for human error is increased.

Add in threats of invoice fraud, and you've got a pretty compelling reason to process your invoices faster, with less effort and smaller margins for error. Do it well and you'll be **saving your business time and money**, and upping your finance team's morale.

So why isn't everyone streamlining invoice management?

The simple answer is that as businesses grow organically, challenging the status quo begins to require real effort and what's basically a pretty radical perspective shift.

We all know the pattern: Start-ups begin using spreadsheets. They move on to cloud-based software. Eventually a bookkeeper is taken on and the finance department expands to meet the growing number of invoices. You run into problems and generally you solve them. It works, but what you've created is a system that naturally bottlenecks.

Very rarely does a company smooth the processing and payments of invoices in a linear, easy-to-manage way. No, press on, experience tells you. Surge towards month's end and that busy collation period in the opening ten-odd days of the month.

Ever consider why? It could be that suppliers tend to issue invoices at the end of the month, but it's more likely that niggling bit of human nature we can't shake – *the leave-it-until-then attitude*.

But look, the tech is out there to do away with the stress and risk of your bloated invoicing process. So why not jump on it? There are a whole bunch of "product market fits" for technology - invoice processing is perfect as a reliable, easy-to-use solution.

So what's the objective?

You're in this create a unified invoicing process that will eliminate stress and error, save time, and add a greener touch to the way your business works.

Pour yourself a coffee and get stuck in: below we'll explain the components of a software solution that will tidy up your month-end process. Our simple guide will fill you in on what you should expect for your invoice processing.

There's a lot of choice out there. By the bottom of this guide, you will have the knowledge to **choose the right tech** and deploy a complete software solution when the time and resources are right **for your business**.

Table of Contents

Receiving Invoices

Let's dive in with how invoices are received. There are principally five methods of receiving or viewing invoices:

- By email
- Fetching invoices from a portal
- Using EDI
- EInvoicing
- Postal mail
- Collection notes/delivery notes are the invoice

Let's hope none of your suppliers are sending invoices in the post (Surely the pandemic put an end to that?) In our experience, 95% of invoices are now emailed, the acceptable format being PDF.

The bottom line is receiving handwritten invoices is a thing of the past. It happens a lot in the food and casual self-employed spaces, but in this day and age there's no good reason to be using invoices that cannot be quickly processed using technology.

Instead, you should insist on self-billing or that all invoices are created in a finance system.

Emailed Invoices

Most solutions will focus on emailed invoices. The invoice originated digitally, and you want it to stay that way.

But even a digital invoice can pinball between departments before finding a home. For a smooth, efficient process you'll want invoices to find their way to a central inbox where it is easy to track their progress.

It's good to be specific with suppliers: Provide them with clear instructions on where the invoices are to be sent. It's also a great idea to set up robust forwarding prompts on your mail server, such as:

- Has an attachment
- Has 'invoice' or 'bill' in the subject

Duplicate Checking

Time and effort are what this is all about and a duplicate warning system will save you both.

Preventing duplicates from hitting the finance system upfront can stop unforced duplicate payments further down the line. With that said, you'd do well to set up an early warning system that can alert you to a duplicate/reminder.

Logging Invoices

Like us, you'll want to track your invoice's journey through your business.

This is only possible if it's hitting your inbox correctly. If it is, you can track the invoice's journey through your business, but that's all down to establishing good rules and conveying the process to all your suppliers.

With that done and your invoices logged, you're ready to get into the meat of your AP solution.

Accurate invoice reading

This is where the tech really starts to shine. The bedrock of this whole function is that your invoice processing solution reads an invoice accurately. Without that, you're toast.

The only way to do this is to use a system that centrally (globally even) knows how to read your supplier's invoice. It should have been trained on hundreds of other invoices from that supplier, or companies similar to your own, before you put it into action. That way, you don't have to wait for the OCR (Optical Character Recognition) to understand the layout of your supplier's line items for the first time. Remember you're here to save time.

Yes of course, there will always be those suppliers who may be unique to you… the local garage or a florist in town, but if they use standard software like Sage or Xero, the invoice layout is typically standardised. Again, you should expect speedy, accurate recognition.

What gets read

- Supplier
- Dates
- Invoice Number
- Purchase Order Number(s)
- Line-Item Fields (qty, amount, description, tax rate, tax amount)
- Totals

OK, so all the text on your invoice is read and interpreted, but you need the values mapped into fields in your finance system. That requires data accuracy.

Data Accuracy

We don't need to tell you that you want to pay your supplier precisely as per their invoice. One errant zero and your company's financial health is on the chopping block.

Your machine reading tech should handle "checks and balances". These ensure correct tax rates and that all the line-item amounts add up to the total amounts found.

What you should try to avoid is having to verify characters like '8' or 'B'. That will slow you down too much. **Expect accuracy from the get go**.

Coding invoices

Each line item on an invoice must be coded for your finance system. For those with basic requirements, the rules cascade down from the supplier.

Take stationery supplier Lyreco, for example. Their nominal / GL code is '8271—Stationary'. Once the supplier is set correctly, their default tax rates and GL codes can be applied to each line.

More complex requirements involve setting a code depending on the invoice's found value. This could be a product code – FG5544 is 5% tax and GL Code 5641, for example – but it could also be something like a vehicle registration number displayed in the invoice. This will require a separate set of rules from supplier defaults.

Rules are great and save time and effort, but the user can always override them and choose from a shortened list of GL codes. We've witnessed subjective coding in the past, where a finance user has said, "I choose the GL based on my instincts."

We think rules are much better – certainly for reporting and analysis further down the line.

Speed

Data recognition **speed should be counted in minutes**, never hours. From the invoice hitting your inbox (i.e. being available to process) you should have an accurate read within one minute *maximum*.

When choosing your solution, we can't stress enough that you look into provider's processing times. Anything longer than a minute suggests they work from an offshore processing centre with people manually keying invoices. This is unscalable at busy periods. You want the infinite scales of machine processing.

Approval Workflows

OK, so the invoice has been accurately read and all the data you need to be sorted into corresponding fields. You are ready to have approvers review the invoice. This is what we call (perhaps uncreatively) the approval process.

It's usually a simple case of **Approve** or **Reject**. It could also require the reviewer to mark up the invoice with some additional information – like a job number. Depending on your requirements, choosing a workflow system with all the flexibility you need makes sense.

Types of workflows

There are principally two types of workflows:

- Rules-Based
- Ad Hoc

A **rules-based** workflow is where you will see the expression "multi-step". This means that multiple people can approve an invoice, and there could be numerous steps to get the invoice processed – that includes checking the delivery status and exporting the invoice to the finance system.

- **Tip**: For a nice touch, add an email step to notify the supplier (perhaps a specific type of supplier like a sub-contractor or freelancer) that their invoice has been approved and is ready for payment.

An **Ad Hoc** approval is when a finance user chooses an approver from a list of available people. For example, the user might select 'Tom' as the approver and ask this person to review the invoice.

Workflow Steps

Below is a typical approval workflow. Of course, values can be edited to suit your business.

STEP 1:   <£500 No Approval Required
STEP 2:   >£500 <£2000 – Department Head to approve
STEP 3:   >£2000 < £10000 – General Manager to approve
STEP 4:   >£10000 – CFO to approve
STEP 5:   Export Invoice to Sage
STEP 6:   Send email to supplier (If Type = "Freelance") confirming approval

Order Matching

Invoices are either stand-alone or linked to a purchase order (PO). If they are linked to a PO, that tells us a lot more about the invoice, such as whether there is an approval process for the spend and what job or project it's related to.

Your business needs to **decide how invoices with POs are handled**. Do you need the invoice to be checked and approved due to quality issues, or do you pre-approve if the invoice is exactly or within an agreed tolerance of the PO value?

We recommend always having a pre-spend approval for the purchase request, so the actual invoice is a formality. As an example: you send a PO for £10,000. The goods are showing as received, and the invoice is for £10,000. Do you need an approver to review the invoice as well?

Delivery Status

You can see the invoice is received, and it's linked to an approved order, but have you received the goods/services?

A key part of the buying process is proof of delivery or receipt of goods. Often called a GRN (goods received note), this information is handy when processing an invoice.

Because of that, we think the ability to hold an invoice pending a delivery confirmation is always a useful addition to your processing system.

Getting Approvals Done

Now more than ever, people are working remotely. This means approvals should be multi-medium. An efficient system will offer:

- Mobile app approvals
- Email Approvals
- Website approvals

Even though your invoice processing tech is slick, your approver is still human, so make sure the system you choose looks good, works intuitively and doesn't overwhelm.

At Zahara we believe an approver shouldn't need a training manual to review an invoice. It should be totally evident to an approver that they either need to click Approve or Reject, or mark it up and choose a value. The old advice about **keeping it simple** rings true.

Reminders

Approvers are busy people, so it's natural they might need to a gentle reminder to take action. The ability to remind them of pending approvals with a nudge each morning will help keep your backlog low.

Absence and Out of Hours

Flexibility is paramount. Your approvers should be able to set a delegate while they are away. Recognise of their "out of hours" time and encourage them to hold off on emails until working hours.

What if an approver doesn't want emails at all but just a reminder? Work around them. Happy approvers mean speed and efficiency.

Delegation

It's worth considering a scenario in which someone might have the power to mark their own homework, as it were – effectively approving their own purchase.

Undeniably, in organisations with trustees like charities or external shareholders, having a CEO sign off on their own Porsche Taycan might be irregular. That job should fall to the board or the CFO.

Dispute Resolution

Throughout your approval process, invoices *will* be rejected. The approver might reject them for several reasons:

1. I'm not the correct approver – Ask X instead
2. Incorrect price
3. The quality of the goods/service isn't sufficient
4. The quantity delivered is wrong
5. The coding is wrong
6. Fraudulent invoice

Reasons such as coding or choosing an approver are internal and will require the finance team to edit and resubmit. You can classify other reasons as external. These will require communication with the supplier in what's generally known as dispute resolution. It's undertaken manually, perhaps by adding notes inside the finance system.

The invoice processing system can handle disputes for you. Here are the key components you should look for:

1. Easy/facilitated communication with suppliers
2. The ability to add notes about conversations with a supplier
3. The ability to add notes about all conversations relating to an invoice
4. The ability to change the status of an invoice to "Rejected" or "On Hold."
5. An automated dispute workflow

No matter the function, what you really want is an improvement on your current process. **You should be able to track disputed invoices** and can see exactly where you are in the dispute through a conversation log, regardless of the colleague handling it.

Finance System Integration

You really need to consider whether the Invoice Processing System integrates with your finance system. Good integration should deliver easy syncing of your key

data (suppliers, coding etc.) as well as receiving processed and approved invoices.

In our humble opinion, here are the questions you should be asking:

- Does this processing system sync with my finance system *without* extra desktop tools, cloud to cloud? i.e. Xero, QuickBooks, Sage Intacct

or

- Does this system need an additional on-premise tool – i.e. Sage 50/Sage 200/Pegasus Opera?

or

- Can my finance system import invoices from the user interface in a format like CSV/Excel?

Finance as a Source of Truth

Your finance system will continue to be a source of truth. The invoice processing solution, however, is an efficiency tool. So, there are some rules to establish and questions to ask yourself:

- Where will new suppliers originate?
- How will I know which invoices are still "pending approval?"
- How will I know what invoices are in dispute?

Suppliers

One frustration with some invoice processing systems is that a supplier originates within the finance system. This can jam things up because the invoice processing system doesn't have data prior to the first invoice arriving. The result? Delays, frustrations, and those pesky bottlenecks.

So, **establish rules**. If your invoice processing system also runs a purchasing module, then controlling supplier creation with at least an alert to the finance team is going to help.

- **Zahara's top tip**: See if the supplier could be generated in the Invoice Processing System *and* then the finance system at the creation of the first invoice.

When to export an invoice to the Finance System

Some finance teams initially think all invoices should be exported straight into the finance system as soon as they are received. This is positive because you have a record of the invoice in the finance system, but it can lead to orphaned changes. A good invoice processing system should give you a precise value and report of everything in progress so you can see:

We've noticed that finance teams tend to lean toward the thinking that invoices should be exported straight into the finance system as soon as they are received. Generally this is positive stuff – you have a record of the invoice in the finance system – but it can lead to orphaned changes.

A reliable invoice processing system should give you a precise value and report of everything in progress so you can see:

- The approved and not yet exported (good) invoices
- Invoices within an approval workflow
- Invoices that were rejected
- Invoices yet to be processed

Experience suggests it's best to export approved and, therefore, "closed" invoices and to export them when you know they are approved and ready for payment. As an example, an exemplary process may look like this:

10/3/2024 9:30 am Invoice Created and sent for approval
10/3/2024 3:52 pm Invoice approved by Amy Wiseman
10/3/2024 3:55 pm Invoice exported to Xero by API with PDF

Remember that a good invoice processing solution will allow everything to happen in real-time. Delays are almost certainly due to your colleagues' failure to take prompt action. **Reminders are your friend**.

Month End Accruals

If you are using the invoice processing solution purely for invoices without purchase orders, accruals are straightforward. You'll need to see the invoice value in the stages shown above. Then you can create an accruals figure for the value of invoices not yet approved or drill into the nominal/GL code values on a more granular level.

Our experience shows that creating one value for the end of the month and then reversing it at the start of the following month is usually sufficient.

The simple thing to remember is that the invoice processing system needs to make it easy for you to see the value of your invoices at the time of your cut-off.

Cut off Dates
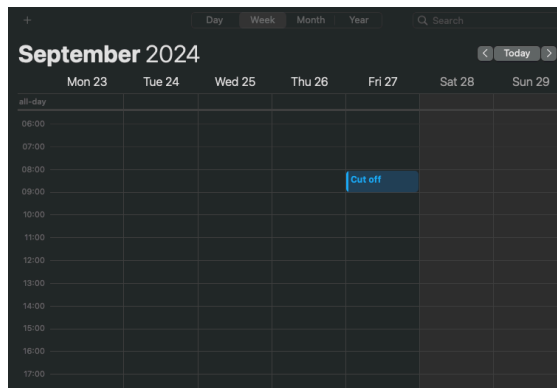
Talking of cut-off dates, your invoice processing solution should be flexible enough to handle invoices around a given month's end. Let's explore a scenario:

Say the last Friday of the month is the 31st, you'll want to record all invoices dated *prior to* and *including* this date. Straightforward stuff.

If you decided to set the 7th of the following month as your cut-off date, you'll want all invoices in and recorded by then.

But it's not always that simple...

Imagine an invoice comes in on the 8th of August but is received into the processing system dated the 31st of July. With the correct rules in place, your invoice processing system should be able to process the latecomer with no additional effort.

Smooth as anything, it should change the invoice date to the 1st of August so it's recorded in your August figures and doesn't affect your, now closed, July figures.

Payment Processing

Over the last decade payment processing systems have broken new ground. The likes of Monzo and Starling are showing up the "big four" UK banks as dated and cumbersome. Making payments domestically and overseas has never been simpler.

Many finance systems have now integrated with a payments provider. Your invoice processing solution could offer similar service.

It might have some of the following functions too…

Payment Run Approvals

Most companies have some form of payment run. That'll either be an ad-hoc way of paying suppliers (usually when they chase you up for payment), or pre-agreed dates when payments are made. Payment runs tend to include at least two steps, though sometimes more.

Step 1 – The financial controller decides which invoices need to be paid. Traditionally, this would involve the actual paper invoices being collated and placed on the approver's desk with checks to sign.

Step 2 – The payment run, and its data is presented to the signing authority – perhaps the CFO or Finance Director. Perhaps the FD likes to flick through the invoices and check everything is in order and invoices are removed from the payment run. Perhaps available funds limit what can be paid this time.

Step 3 – The payments are made. It might be a case of uploading a BACS file from the finance system into your bank software. If not, you'll be selecting suppliers from the available payees in your online banking and keying in an amount that matches what you are seeing in your finance system.
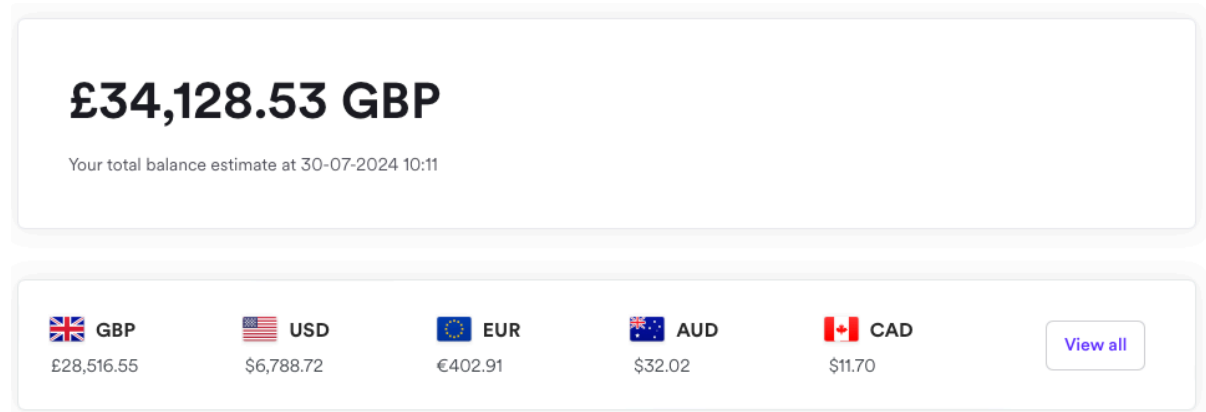
For most UK businesses, this is much simpler and cheaper than creating and posting the cheques of the past. But the process can be improved further. Your invoice processing solution should offer a payment function with seamless approvals that **don't require paper** at any stage.

Digital Wallets & Batch Payment Processing

The new generation of payment providers use digital wallets. They're simple and efficient tools for transferring cash between currencies, and they can save you a pretty penny.

It's all very simple: by transferring money from domestic bank account (say HSBC) into a currency wallet you're effectively buying currency as and when you need it, at competitive rates and the click of a button.

Be it in Euros, Dollars or Yuan, you can now pay your suppliers without swallowing a loss on international transaction fees.

£34,128.53 GBP

Your total balance estimate at 30-07-2024 10:11

🇬🇧 GBP	🇺🇸 USD	🇪🇺 EUR	🇦🇺 AUD	🇨🇦 CAD	View all
£28,516.55	$6,788.72	€402.91	$32.02	$11.70	

Get an invoice processing system that has a digi-wallet function, or one that'll integrate it in the near future. Even if you do not want it now, you may want it later, because…

Pay on Due Date

To many in finance, this is the holy grail of efficiency and heart of AP Automation. You might hear of it called ***straight-through invoice processing*** (this essentially means a user doesn't need to key anything). It's all about having your invoice paid automatically, essentially allowing your finances to run on autopilot.

This happens all the time with Direct Debit and standing orders, so it's only a question of time before this function is made available to accounts payable teams in the UK. You'll need your invoices recorded in the finance system and payments pre-approved. Provided these checks and balances are in place and your digital wallet can be automated, Pay on Due Date should be entirely possible.

Reporting, Audit Trail & Analysis

Reporting is one of the brilliant things about an invoice processing solution. Pick one with a reporting function and you'll be able to analyse your spending through your month-end accruals.

Even better if it can link with a reporting warehouse system like PowerBI for things like data visualisation.

If reporting is what you're after, here are the key things to consider…

Audit Trail

Every invoice needs an audit trail. It should show actions taken since its creation. This includes things like all the approvers, their comments, and the steps taken, when it was exported into the finance system, etc…

You could export your audit trail with the invoice to prove a good record of management skills. Why might you want to do this?

You must prove to a higher authority like HMRC that this invoice is authentic and the tax elements are correct. Your auditors will also want to be convinced that your process is robust and fraud-free. And audit trail report will help you with this.

Spend Analysis

Your invoice processing system should enable you to drill down into spending by nominal code and spending by supplier. It won't the finance system – that will still be a source of financial truth. Nor will it likely hold payroll or credit card spend, but will have invoices from your key suppliers, so it is helpful to analyse this quickly for periods.

Usage

You'll want to be able to view your usage of the invoice processing system, particularly if you have a form of credit for the volumes of invoices you process.

User licences, page counts for processing invoices and volumes of invoices created are always helpful, so long as you can view them easily.
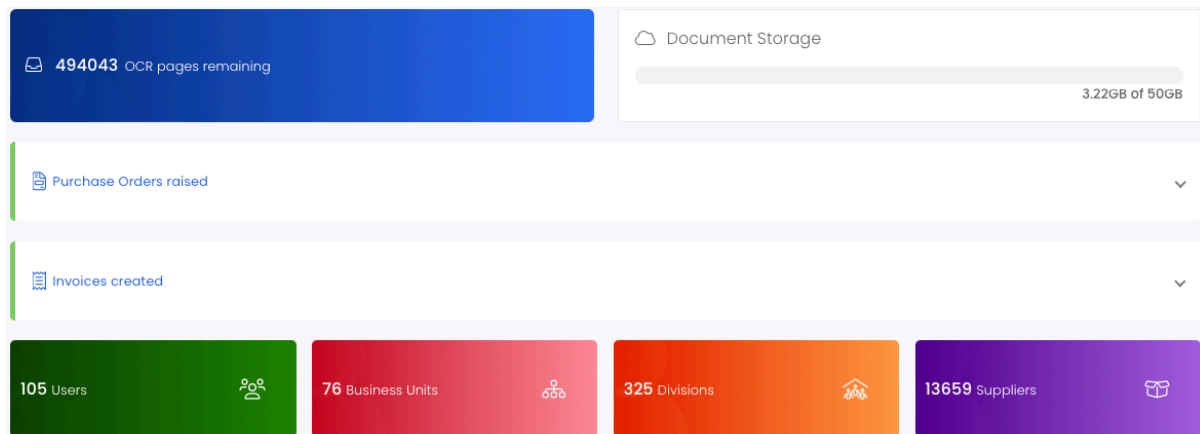
Performance

Another practical data point will be the performance side of invoice processing. We tend to measure this by the volume of invoices processed and metrics around how quickly invoices flow through the finance system. This could include:

- The volume of invoices created
- Average approval time from creation to export
- % of invoices that are rejected
- Individual approver's approval times
- Top X approvers by approval time

Records Management

You might want an invoice processing system with record management functions. This will help with compliance and storage. Remember HMRC require you keep records going back seven years…

The invoice processing system should have several options, including built-in storage, local network storage, and the ability to hand record images to the finance system.

Ultimately, you can decide with your auditors what's required and save and back up accordingly. What you can do away with though, is a paper copy of an invoice. It isn't needed, and hasn't been for the best part of twenty years now. A PDF stored securely, together with an audit trail, is more than sufficient for any business' needs.

Costs

So, how much will an invoice processing solution cost? A fair question, but you should really be asking: how much we can save by implementing the system?

To get to the bottom of this, let's first look at the actual costs of processing an invoice when it requires all the human-lead drudgery of manual data entry… the approvals, the filing and saving. So really it's a question of how much time is spent per invoice, and the average salary for a finance admin and an approver.

If we're conservative and work on £20 an hour average for the approver and the finance person and say that each invoice takes no more than four minutes to process, we have a unit cost of £1.33. The reality is it's probably more than four minutes per invoice and more than £20 an hour, but you can see our unit price here isn't pennies.

Your invoice processing solution needs to target much less than £1.33 per invoice. Let us say you process 500 invoices a month. Using my above rate, you've got a cost of £666. (This doesn't take into account holidays or sickness.) Let us round that up to £700 a month.

Remember, the goal here is to reduce processing time so we can process the invoices faster and with better visibility, freeing up existing staff to concentrate on more enjoyable or productive tasks like finding cost savings and deeper analysis. The approvers can also approve with just a click, taking far less time and effort.

The consideration, then, is what you're already paying versus the improvements a new system will give you and the efficiency drives it will provide. Actual savings come when you front-end load the process with a purchase control module that prevents unnecessary spending or spending with the wrong supplier at the incorrect price.

An invoice processing system is all about speed and efficiency and the ability to scale up volumes of invoices – perhaps a company acquisition is planned –

without significantly increasing the amount of human capital required to cope with this increased volume.

Next Steps

So now you know the basics, what's the next step?

Trials

Trials are a pretty great way to experience software. They come in two types and both have their merits.

The first is completely empty software. That'll require an upfront investment of your time but you can think of it as a five-day project where you spend a little time every day getting to grips with the program. The main advantage here is that you are already building your environment. In a way, the investment you make is already paying off.

The other is demo data. The main benefit of this version is that it allows you to see the system quickly - You don't have to build it from the ground up. The thing is, your instinct will be to fit it around your own ideas and this can result in you deleting all the unnecessary things you don't need.

Demonstration

Taking a demo of the software is almost certainly the best way to experience the product. The presenter will not only know their software inside out, but they will more than likely have a depth of experience of your world – accounts payable.

Demonstrations are usually done online, which keeps things keep simple. Your presenter will walk you through all the details and you can ask questions in real time.

They'll also be able to reference countless other customers whose requirements match yours. This is unendingly helpful - We all like to benchmark how we are doing.

Zahara's top tip: The person providing the demo should also be able to help you gauge if your existing processes are suited for improvement.

Conclusion and Advice Going Forward

If this guide has been helpful and provided you with some insights and knowledge to support your plans, then we've done our job. Our advice from here is to **take your time** and **plan**. This will ensure you get things right.

Start by thinking about your current processes and the biggest bottleneck. Try to resolve that first. Technology is available, user-friendly and better than ever, so now is the time to take advantage.

The Author

Martin Peirce founded Zahara Software and has worked in document management, intelligent recognition, and accounts payable solutions for over 20 years.

Contact: mp@myzahara.net