The Invoice Verification Process

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Invoice verification is about checking that you got what you paid for before progressing for payment. In my experience invoice verification is practiced in many different ways, from not at all, through to a forensic line item analysis.

There are many factors that will influence the level at which an invoice is verified. These include:

- The priority the organisation puts on ensuring a correctly rendered invoice (paying for what you get);
- The appetite for risk an organisation has with respect to errors and mistakes not being discovered (cost leakage), as well as meeting audit requirements; and
- Lacking the tools, defined processes and adequately skilled resources to perform the verification activities in a cost and resource effective manner.

Using ICT outsourcing agreements as an example, typically aimed at the organisations of 1,000 employees or greater. These agreements have evolved over the past 20 years, from lease and support plus help desk (the 'mega deals') through to cloud provisioning and outcomes based models or select sourcing.

The business management team of the service provider will generate invoices with a variety of excel spread sheets to support the monthly invoice. The client will then go through a checking process. This checking process should involve:

1. Ensuring the support data matches the invoice amounts (volumes and amounts);
2. Ensuring taxes (in Australia its GST) have been correctly calculated (eg some items might not attract GST);
3. Ensuring the service levels have been met, by performing any checks based on both vendor provided and internal or independent information. (This step is typically part of the contract management function/role); and
4. Depending on the results of the service level checks, ensuring that the invoice reflects any service credit or other adjustments in accordance with the performance management framework (if one exists or service level agreement clauses to the contract).

If the invoice is deemed to be correct then it is processed for payment. If not, then typically a dispute is raised and it's logged in a dispute notification register to work through with the service provider. Some organisations pay the bill in full and then deal with the disputes, with adjustments coming through in subsequent invoices. Other organisations completely reject the invoice and ask for a re-issue and others will partially pay the invoice for the correctly verified items.

Where chargeback (or showback) is in place there is then often another level of checking that will occur (or not) by the business units being charged for the services. These business units will often double up performing the same checking that was performed centrally. Or alternatively, the central function does no checking and leaves it up to the business units, who all check their charges in their own way. Sounding messy and inefficient!!!! Well it is.

Thankfully, there is light at the end of tunnel, and smart organisations are seeing that in the digital age there are better ways to do this, through process standardisation and automation of the functions, including integration into the ERP.

If you would like to discuss further, then please send me a line for a chat.