

Incoming invoice: review, approval and control in the procurement process

The incoming invoice is the invoice that a supplier issues to the procuring company once the service has been rendered. It documents the financial claim arising from the purchase order and forms the link between goods management and financial accounting. For technical procurement, it is also a control instrument: quantities, prices and conditions are verified here as a final check against the purchase order and goods receipt.

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Key facts at a glance

- 01 The incoming invoice is the invoice submitted by the supplier for goods delivered or services rendered.
- 02 In practice, it is reconciled with the purchase order and goods receipt as part of invoice matching (three-way matching).
- 03 Typically, the payment term framework is 14 to 30 days net; early-payment discounts are often between 1 and 3 per cent for payment within 8 to 14 days.
- 04 Quantity or price discrepancies are in practice frequently resolved via a defined quantity discrepancy workflow before payment is released.
- 05 The incoming invoice is often part of the payment run and directly influences liquidity planning and cash flow.
- 06 E-technologies such as OCR and EDI typically shorten processing time per invoice considerably.

Definition: incoming invoice

The incoming invoice (also known as a creditor invoice or vendor invoice) is an invoice document that a supplier transmits to the buyer after the service has been rendered. It is the accounting and commercial basis for the liability arising from goods or service purchases. In the procurement process, it marks the

final documentation step of the transaction after purchase order, delivery and goods acceptance.

Legal context and mandatory information

Commercial and tax law requirements stipulate that invoices must contain mandatory information, such as the name and address of the parties, tax number or VAT identification number, invoice date, invoice number, quantity and customary trade description of the delivery, as well as the tax rate and amount. For cross-border transactions, information on origin preference or country of delivery is added, which may be relevant for customs and preference queries. Which details are required in each individual case should be examined from a tax perspective on a case-by-case basis.

- Invoice number and date for unambiguous allocation
- Purchase order reference (PO number) for automated matching
- Quantities, unit prices, discounts and surcharges/ deductions
- Payment terms, early-payment discount details and bank details

Distinction: incoming invoice and outgoing invoice

The incoming invoice is the mirror image of the outgoing invoice: while the supplier shows a receivable against the customer with the outgoing invoice, a liability (creditor posting) arises on the buyer's side. For procurement, the incoming invoice is also proof of adherence to agreed conditions, such as price negotiations incorporated in the award process or agreed price bands and price corridors. In accounting terms, it leads to account and cost centre allocation; operationally, to approval and payment.

Methods and approach: review and approval

The review of the incoming invoice in industry mostly follows the principle of invoice matching: the invoice service provider or the automation logic reconciles invoice, purchase order and goods receipt. Only when quantity, price and totals match is the invoice scheduled for payment without manual intervention. In the event of discrepancies, a defined clarification process is initiated with procurement or the specialist department.

Three-way matching

In three-way matching, the purchase order (line items, prices, conditions), the goods receipt (quantities actually delivered) and the invoice (amounts claimed) are systematically compared. Tolerance rules define which price or quantity discrepancies are automatically passed through, for example a typically percentage-based tolerance corridor of 1 to 5 per cent depending on the material group. If the purchase order and goods receipt are sufficiently determined, two-way matching without a separate goods receipt document is often sufficient in practice.

Quantity discrepancy workflow

If the invoiced quantity deviates from the goods receipt, the quantity discrepancy workflow applies.

Typical causes are partial deliveries, over-deliveries, mix-ups during goods acceptance or invoice lines without a purchase order reference. The workflow defines responsibilities and response times: procurement clarifies with the supplier, logistics checks warehousing and interim posting, and approval is only granted once the quantity has been clarified. Without a defined process, double payments or unjustified claims threaten.

Approval, posting and payment control

After successful matching, the invoice is posted (cost centres, cost types, project or order reference) and approved via defined approval levels depending on the amount. It then enters the payment run, which sorts the payment rounds by due date, payment terms and available early-payment discount. Procurement can positively influence liquidity here through agreed payment terms – such as bonus scales or supplier financing – provided the early-payment discount deadlines are met.

| Key KPIs: invoice turnaround and discrepancy rate

The incoming invoice process is highly measurable and is therefore a classic of process optimisation in indirect procurement. Common benchmarks from practice are based on automated environments with a high degree of digitalisation; purely manual processes lie significantly above these figures.

Turnaround times and degree of automation

The turnaround time from invoice receipt to payment approval is typically a few days in automated environments, and often two weeks or more in manual processes. The degree of automation (share of invoices without manual intervention) is a central optimisation lever: it falls immediately when suppliers deliver in an unstructured manner via PDF or paper. The first step is therefore systematic connection via EDI, portal upload or OCR capture.

Discrepancies and early-payment discount utilisation

The discrepancy rate (share of invoices with matching errors) and the early-payment discount utilisation rate (share of payments where the discount was taken) indicate process quality and supplier quality. High discrepancy rates often point to weak demand specifications, unclear data management in the parts catalogue or poor purchase order discipline. The early-payment discount utilisation rate, in turn, shows how consistently the payment run is geared towards liquidity optimisation.

Cost per invoice

Processing costs per incoming invoice are in practice typically in the low single-digit euro range in fully automated environments, and often considerably higher in manual processes. Composed of personnel costs, system costs, clarification effort and archiving, it is a common management metric. Optimisation levers include bundling of order volumes, reduction of small-scale orders and avoidance of invoices without a purchase order reference.

Risks and controls: double payment, fraud and compliance

The incoming invoice is a classic target for fraud attempts, process errors and compliance violations. Without clear controls, double payments, payments to fake accounts or unjustified VAT charges threaten.

Error types: duplicate, multiple and fraudulent invoices

Common error patterns include duplicate invoice submission with a variant invoice number, billing of several purchase orders on one invoice without a traceable reference, and fraudulent invoices without any service rendered. An effective control framework relies on unambiguous invoice number checks, mandatory purchase order references, tolerance rules in matching and four-eyes approval above defined thresholds.

Supplier master data and fraud prevention

Bank account change requests from suppliers are a common attack vector for fraudsters. Controls rely on reliable master data management, e.g. verification via a D-U-N-S Number (DUNS) and other credit reporting services, callbacks for account changes via known contact channels and clear internal procedures. A whistleblower system can additionally help report irregularities noticed by employees.

Legal and tax aspects

Proof of a proper incoming invoice is among other things a prerequisite for input tax deduction; depending on legal form and business model, there are retention obligations for invoice documents. For suppliers with retention of title in the contract, payment may additionally be legally significant, since ownership can only pass completely upon settlement of payment – the arrangements must be examined individually. For cross-border invoices, tax and customs aspects (such as origin preference) must be assessed on a case-by-case basis.

Current developments: e-invoicing and automation

Invoice receipt is under considerable digitalisation pressure. European and national regulatory initiatives are driving structured e-invoicing formats forward, while companies are streamlining internal processes with AI-based capture, automated matching and an integrated payment run.

Structured e-invoicing

Structured formats such as XML-based standards are increasingly replacing pure PDF. They enable machine-readable data that feeds directly into matching logics and greatly reduces manual capture effort. In Germany, mandatory e-invoicing capability for B2B transactions has been progressively advanced in recent years; the specific transition deadlines should be examined on a company-specific basis.

AI-based capture and matching

OCR and AI-based systems capture unstructured invoices, recognise supplier, purchase order reference and line items with high accuracy and suggest postings. This reduces turnaround times and clarification cases. Limits remain with complex billing, for example in plant construction or for milestone-based payments in capital goods and project business.

Integration into procurement and supplier processes

The incoming invoice is not an isolated finance process: it interlinks with procurement planning, goods receipt and planned-versus-actual inventory comparison. Differences between delivered and invoiced quantities feed back into supplier evaluation and can be used within supply risk management as an indicator of quality or capacity problems. Companies that evaluate invoice and order data holistically gain early insights into supplier behaviour and condition risks.

Typical metrics

Metric	Typical value
Turnaround time from invoice receipt to approval	typically 2–5 days <i>automated environment; manual processes significantly higher</i>
Degree of automation	> 80% <i>share of invoices without manual intervention, common target value in practice</i>
Discrepancy rate	< 5% <i>share of invoices with matching errors; varies by material group</i>
Early-payment discount utilisation rate	> 90% <i>share of discount-eligible payments where the discount was taken</i>
Processing cost per invoice	single to low double-digit euro range <i>strongly dependent on the degree of automation</i>

Practical example

A medium-sized mechanical engineering company with around 4,000 incoming invoices per month struggled with a high discrepancy rate: more than every fourth invoice triggered manual clarification, especially for steel and electrical components with fluctuating raw material prices and sometimes without a clear purchase order reference. After introducing a binding purchase order reference requirement, revising the demand specification and integrating raw material indexations into dynamic price clauses, the clarification rate was significantly reduced. In addition, the payment run was switched to weekly cycles with automatic early-payment discount optimisation.

- Binding PO number requirement for all incoming invoices including rejection without a reference

- Three-way matching with defined tolerance bands per material group
- Automatic early-payment discount optimisation in the payment run according to liquidity position
- Regular planned-versus-actual inventory comparison to detect billing differences at an early stage

Conclusion

The incoming invoice is more than an accounting document: it is the final check of whether suppliers delivered and invoiced what was contractually agreed. A well-designed process with three-way matching, defined discrepancy workflows and clear approval rules protects against double payments, fraud and compliance violations. At the same time, the process offers considerable optimisation potential in turnaround time, early-payment discount utilisation and processing costs. Companies that systematically feed invoice data back into supplier evaluation and procurement control gain a lasting informational advantage. Investments in automation and structured e-invoicing typically pay off quickly in practice.

Frequently asked questions

? What is an incoming invoice?

The incoming invoice is the invoice that a supplier issues to the buyer after the service has been rendered. It creates a liability on the buyer's side and is the basis for review, approval and payment. In the procurement process it is the final control instrument against the purchase order and goods receipt.

? What is the difference between an incoming invoice and a purchase order?

The purchase order is the buyer's ordering and contract document, while the incoming invoice is the supplier's request for payment after the service has been rendered. Both are compared in the matching process in order to uncover discrepancies in quantities, prices and totals. Only once they match is the invoice released for payment.

? How long does it take to process an incoming invoice?

In automated environments with three-way matching, processing time is typically a few days, while in manual processes it is often one to two weeks. The decisive factors are the degree of automation, the discrepancy rate and the effort required for clarification. The target for many companies is a turnaround that reliably meets early-payment discount deadlines.

? What does three-way matching mean for incoming invoices?

In three-way matching, the purchase order, goods receipt and incoming invoice are compared with one another. Only if quantities, prices and totals match within defined tolerances is the invoice automatically approved. In the event of discrepancies, a defined clarification workflow is initiated with procurement or the specialist department.

? When must an incoming invoice be paid?

The payment terms result from the agreed conditions – in practice typically 14 to 30 days net, with early-payment discount deadlines of 8 to 14 days. Statutory provisions may impose upper limits depending on industry and contracting party; the specific arrangements should be examined on a case-by-case basis. The payment run sorts due invoices by early-payment discount potential and liquidity.

? How can you recognise fake incoming invoices?

Warning signs include missing purchase order references, unknown suppliers, invoice numbers for transactions already paid, changed bank details and unusual amounts. Controls rely on mandatory purchase order references, master data verification (e.g. via a D-U-N-S Number) and the four-eyes principle for approval. Bank account change requests should always be verified through known contact channels.

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