
UNIT 6 INVOICES ON HOLD

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6.0 OBJECTIVES

The objectives of this unit is to familiarise the learners with:

- the reasons for putting invoices on hold;
- how to pursue the issues due to which invoices are put on hold; and
- importance of following up on invoices on hold.

6.1 INTRODUCTION

We have discussed how invoices are processed in the previous unit (Unit 5: Invoice Processing). We have also discussed that sometimes due to lack of information available with the AP team or due to the AP team not having the authority to make some payment decisions, invoices are sent to various stakeholders (e.g. User dept / Stores Dept etc) to get the missing information or approvals for payment. While the invoice processing team waits for this information/approval, the “invoices are put on hold” i.e. further processing on the invoice stops.

Below are the few scenarios, wherein invoices are placed on “invoices on hold”

1. The PO is not authorised
2. PO has not receipted
3. Invoice value exceed the PO value
4. Invoice quantity exceed PO quantity
5. Non PO invoice for an approval from the client organisation
6. If PO is closed, this is also one of the scenarios when invoices are placed on hold.
7. If Business requestor disputes the invoice for various reasons, then also invoices are put on hold.

In this unit, we will discuss all scenarios/reasons for placing an invoice on hold and when the hold can be removed. We will also learn what invoice processing team can do so that invoices do not remain on hold for a long time and are processed for payment within the agreed time.

6.2 INVOICES ON HOLD

6.2.1 What is 'Hold'?

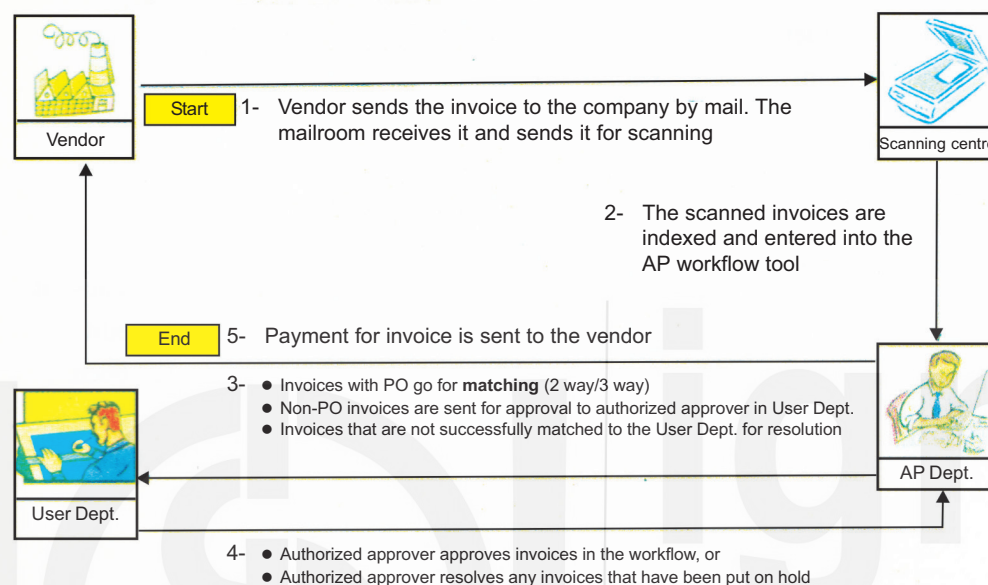


Fig. 6.1: The AP (Accounts Payable) Cycle

Refer to the diagram of the AP cycle in fig 6.1 above

In Unit 5, while discussing the invoice processing, we have discussed that the incoming paper invoices are scanned and put into a document management system and these documents are sorted based on the various parameter, e.g.. credit note / invoice (PO invoice & Non PG Invoice).

Invoice processing team start processing invoices, as per the information available on the face of the Document. However in few cases, invoices do not carry required information or approval for processing. In such scenarios invoices are placed on 'hold'.

'Hold' is the status that is put on an invoice, due to which no further processing can happen on it. The invoice is taken up for processing only after the hold has been removed.

Once an invoice is placed on 'hold', a workflow tool is used to inform the user department (client) with the reason for placing the invoice on hold and the action requested (step no. 3 in Fig 6.1 above).

For example, a non-PO invoice needs to be sent to the buyer for approval as well as for getting the cost codes.

Another situation when invoice may be put on hold arises in case of services. In that case, the PO has to be matched with the invoice and a confirmation from the buyer (client) has to be received, whether the services have been received to their

satisfaction. Till the time the confirmation is received from the client about services having been received, the invoice is put on hold.

Invoices are put on hold because the invoice processing team needs to send the invoices back to the client due to some issues. An invoice that has been put on 'hold' is also referred to as invoice 'on query'.

Once the action requested to the user department (client) is completed, the hold from the invoice is released and processed for payment.

6.2.2 Reasons for Putting Invoices on Hold

As we have seen in Unit 5 (Invoice processing) that the non-PO and PO invoices follow a different process at the time of invoice processing. Hence the reasons for invoices on hold differs for non-PO invoice and PO invoice.

The main reasons to put a 'hold' on a non-PO invoice are:

1. **Account code/cost centre are not available:** A non-PO invoice does not have the account codes and cost centre code available. This information is needed so that the cost of goods/services stated in the invoice can be classified properly and charged to the appropriate project/cost centre/department and under the appropriate cost head.

The invoice only carries the name of the buyer who bought the goods and services from the vendor. The information on cost centre and account codes needs to be obtained from the buyer. So the invoice is put on 'hold' and sent to the buyer to get this information.

2. **Approval required from the buyer:** A non-PO invoice also does not carry an approval to pay from the buyer. This approval also needs to be obtained from the manager who made the purchase decision. The invoice needs to be put on hold to get this approval as well.

Once the buyer's approval and the information on account code/cost centres are available, the hold can be removed and the invoice can be processed further for payment.

(Note: In some cases, the process is defined by the client in such a way that the outsourced team is asked not to approach the buyer directly but send the invoice to a manager in the client side AP team. This manager in turn contacts the concerned buyers and gets the approvals and information to process the invoice further)

3. **Vendor is not present in the vendor master:** Sometimes the vendor, who has submitted a non-PO invoice, may not be present in the vendor master (a new vendor submitting an invoice for the first time).

In case of PO based invoice, the vendors are created before the PO is raised. Hence, the vendor codes are always available for PO invoices. This is not the case for non PO

The Non-PO based invoices can also be processed in the system even if the vendor is not created. This will be processed through the same tool as an Adhoc payment to the customer address via cheque payment (as one of payment).

To process the invoice further, the vendor's record needs to be created in the vendor master. The invoice is put on 'hold' and sent to the client along with a communication that the vendor needs to be created in the vendor master before the payment can be processed.

The client approves the creation of the vendor's record, asks for the vendor's details and forwards the same to the vendor setup team. Once the vendor is set up, the vendor setup team closes the setup request and confirms the id of the new vendor, the invoice processing team can remove the hold on the invoice and process it further.

4. **Vendor master data needs to be changed:** Sometimes the particulars of the vendor (for example the bank account's details) stated on the invoice, do not match the information that has been stored in client's vendor master. This usually happens when the vendor changes its bank account and has not informed the client about it. In this case, if the invoice is processed for payment without modifying the vendor master data then the payment may eventually be rejected.

So the invoice needs to be put on hold, the vendor set up team (through the client) notified to change the vendor master information and then the invoice processed further.

The main reasons to put a 'hold' on a PO invoice are:

1. **Purchase order not released:** Sometimes the purchase department sends the purchase order to the vendor but the purchase order does not get approved in the ERP. Because of this, the status of the PO remains as 'unreleased' and when the invoice processing team tries to see the PO related information to match it with the invoice, they cannot see the PO.

In this case the invoice is put on 'hold', the purchase department is asked to approve and release the PO and confirm back. Once the confirmation is received that the PO has been released, the hold is removed from the invoice and it is processed.

In case the PO is missing, the purchase department confirms that back and the invoice can be returned to the vendor due to incorrect PO being mentioned on it. Vendor is asked to resubmit the invoice with correct information.

2. **GRN not created:** There are situations, when the vendor sends the invoice at the same time when the goods are being dispatched. In such situations, the invoice reaches the client before the goods that are received. So, by the time the invoice processing team starts processing the invoice, it is possible that in some cases they may not find the corresponding GRN to do a three-way match. The invoice is put on hold and sent to the receiving department/stores/warehouse manager to confirm back once the goods are received against a particular PO/invoice and the GRN has been raised. The receiving manager creates the GRN and sends back the invoice with the confirmation. The invoice can then be processed.
3. **Invoice amount exceeds the PO value:**
 - a. **Invoiced quantity exceeds PO quantity:** In case the vendor has supplied more than what was ordered, the invoice is put on hold to clarify from

the buyer whether the additional material/goods can be accepted. In case the buyer approves the acceptance, the additional material can be accepted and the invoice can be processed accordingly (extra material/goods supplied can be paid for).

For example, the PO indicates that 10 (ten) printer toner cartridges were ordered but the vendor has supplied 12 cartridges. In this case the invoice is put on hold and a request is sent to the buyer to approve the purchase of 12 cartridges.

In case the buyer does not approve the additional purchase, the goods have to be returned and a debit note should be raised to offset the difference between invoiced amount and the actual payment made.

In case the purchase is approved, then the PO needs to be modified by the procurement/purchase department for the extra quantities of goods. In the above example, the PO needs to be modified from 10 cartridges to 12 cartridges and approved again. The invoice is matched and cleared for payment after that.

- b. **Invoice price exceeds PO price:** In the situations where the price on the invoice exceeds the price on the PO, the client usually defines tolerance limits up to which these differences in prices can be cleared for payment by the invoice processing team itself. In case the price difference exceeds the tolerance limit then the invoice needs to be put on hold and referred to the client/buyer. The invoice should be processed only after the buyer approves the invoice.

After the invoice is approved, the PO also needs to be modified to reflect the correct purchase price.

The invoice should be returned in case the buyer is not willing to pay the price quoted on the invoice.

4. **PO is closed:** The PO is closed when the goods ordered against it have been supplied by the vendor. In case the invoice processing team finds that the PO is closed then it needs to put the invoice on hold and send it to the purchase department to modify the PO or create another PO (after getting the buyer's approval).

Once the PO has been modified or the new PO created, the purchase department sends the particulars back to the invoice processing team along with the particulars of the PO. The invoice is then processed for payment.

5. **Invoiced quantity does not match received quantity (GRN):** In this case the invoice needs to be put on hold and the clarification needs to be sought from the receiving manager. The mismatch may have occurred due to rejection of item. In this case if the receiving manager clarifies the matter the invoice can be processed for payment (payment to be made only for the goods received) by creating an internal debit memo. However, if the mismatch is due to any other reason the invoice needs to be returned and the vendor needs to be asked to resubmit the invoice with the correct details or submit a credit note.

6.3 CHALLENGES FACED IN DEALING WITH INVOICES ON HOLD

After invoice processing, following up on the invoices on hold is the activity that consumes most of the effort of the AP team. The follow ups are required because:

- a) The client manager/buyer who is supposed to provide the necessary information does not revert back in time. He may be on leave or may have ignored the emails that have been sent to him prompting him to take action.
- b) The invoice may have been marked to the wrong person or a person who may not have the information or the authority to take action on it.

Although the invoice processing team puts the invoice on hold, and waits for the response from the client/buyer, it (invoice processing team) still carries the responsibility to process the invoice on time and make a timely payment to the vendor.

It is imperative that the invoice processing team tracks the invoices put “on hold” properly and follows up on the closure of the respective issues, to enable it to process the invoice. It needs to send reminders to the concerned parties and if needed escalate the issue as per the agreed escalation matrix to make sure that the payments happen on time.

In some cases, the workflow tools are equipped to send automatic reminders to the client managers/buyers in case the invoice remains on hold for a certain amount of time. The time limits can be set within the workflow tool itself like 3 business days, 5 business days, 10 business days etc.

Performance measurement of the invoice Processing Team

The metrics used by the client/process manager to measure the effectiveness of this invoice on hold (or invoice query) process are:

1. **Accuracy:** It refers to how appropriate/correct the response from the client manager/buyer was. The accuracy metric is measured by:
 - a. Number of resolved issues requiring rework
 - b. Number of cases that were accurately directed to the client (in case it is sent to the wrong party or for the wrong reasons, it leads to client dissatisfaction)
2. **Productivity:** This refers to how many issues have been resolved in a given amount of time. This is measured by:
 - a. No. of issues resolved per day
 - b. No. of issues recorded per day
3. **Turnaround time:** This is the average time taken to close the issue. It is measured by:
 - a. Average Turnaround time per resolved issue.

Check Your Progress

1. **State whether the invoice needs to be put on hold under the following circumstances:**
 - a. The vendor's bank account number on the invoice differs from the account number recorded in the vendor master.
 - b. The quantity of goods invoiced is less than the quantity mentioned on the PO.
 - c. The quantity of goods invoiced is less than the quantity mentioned on the GRN.
 - d. The invoice processing team cannot trace the purchase order mentioned on the invoice.
 - e. The invoice processing team cannot trace the GRN mentioned on the invoice.
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6.4 LET US SUM UP

When the invoice processing team does not have adequate information or authority to clear some invoices for payment, these invoices are put on hold' to seek further clarifications and approvals from the client.

Once the necessary information and approvals are obtained, the hold is removed from the invoice and it can be processed for payment.

A non-PO invoice is usually put on hold because the cost codes and cost centre (to which the Cost may be charged) are not available, approval to pay the invoice needs to be sought from the buyer or vendor's details are not present in the vendor master or need to be modified for some reason.

A PO invoice is usually put on hold when the associated PO or GRN cannot be traced within the ERP, invoiced price exceeds the PO price, invoiced quantities exceeds the PO quantities or GRN quantities or the PO is closed.

The follow up on invoices on hold takes a lot of effort from the invoice processing team and can come in the way of the team achieving its SLAs.

6.5 KEY WORDS

Account code: A numbering system given to specific kinds of work for the purpose of organising the cost control process of a specific project or department

Accounts payable: it refers to the money due to the vendors for the goods and services supplied by them on credit. Accounts payable team is the team within the organisation that manages the accounts payable i.e. making payments to vendors on time.

Hold: A status assigned to the invoice while further information and approvals are being sought on it from the client.

Metrics: Measurements taken on an activity to measure its quality.

Non-PO invoice: An invoice which is raised for the goods/services not supplied against a purchase order.

PO invoice: An invoice which is raised for the goods/services supplied against a purchase order.

Vendor master: The database maintained by the client, which contains details of all the vendors that the client does business with.

6.6 ANSWERS TO CHECK YOUR PROGRESS

1. a. Yes.
b. No.
c. No.
d. Yes.
e. Yes.

6.7 TERMINAL QUESTIONS

1. Under what circumstances does an invoice processing team put an invoice on hold?
2. What are the metrics that are used to measure the effectiveness of invoice query (invoice on hold) process?
3. Discuss how the reasons for putting a non-PO invoice on hold differ from those for a PO invoice.
4. Why is a prompt follow-up required from the invoice processing team on the invoices on hold?