

Lost in transaction

The hidden cost of invoice errors in the Nordics 2020

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Introduction

Errors in invoice handling and accounts payable processes hurt bottom-line results of companies and organizations.

Lost in transaction 2020 – The hidden cost of invoice errors in the Nordics is the second annual report, aiming to increase the awareness of hidden capital leakage in accounts payable processes .

In the report, we present how human factor errors in invoice handling, miscalibrated work processes - and software - cause errors which pass unnoticed and result in money losses.

By uncovering how common and costly these errors might be for all types of organizations, not at least companies and public sector entities that manage large volumes of transactions, finance teams might be inspired to further develop and improve their processes.

Henri Taipale
Founder & CEO
Qvalia

The hidden cost of invoice errors in the Nordics 2020

100

NORDIC ORGANIZATIONS

100⁺M

EURO IN REVENUE

26 M

ANALYZED INVOICES

1

0,53%



Erroneously posted invoices

31 days



Full-time working days per organization to correct erroneous postings

2

3

Errors



Despite the internal efforts...

25%



Passed undetected

4

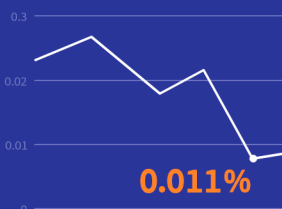
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The cost of undetected invoice errors



€0.44

0.44 EUR
per every received
purchase invoice



0.011% of total
purchase volume



29%

29% of total
posting cost in accounts
payable process

Summary

Among Nordic organizations included in the study, 0,53% of all managed invoices were handled or posted erroneously in the accounts payable process. The majority of errors were identified and corrected internally.

Despite the internal correction process, 25% of the invoice errors passed unnoticed through accounts payable, resulting in hidden money loss.

The average time per organization required for corrections were 31 full-time working days.

Undetected VAT and payment errors caused an average money loss of 0.011% of the total

annual organizational spend.

For every processed purchase invoice, EUR 0.44 was lost on average due to missed VAT deductions or wrong payments.

In relation to the organizational cost of invoice postings, the loss of undetected errors represents 1/3 of the total invoice postings cost.

The result indicates a significant opportunity for finance teams to increase the organizational efficiency and outcome by reducing, or eliminating, purchase invoice and accounting errors, by further improve work processes and increase the digitization of invoice management.

Background

Errors happen. A miscalibration, complex or outdated legacy software, new legislation on a foreign market, or human factor errors – the pitfalls for costly accounts payable mistakes are plenty. With this report, we want to increase the awareness of undetected accounts payable errors and how it can hurt bottom-line results.

Financial data mining

Many invoice and accounting mistakes are identified by the finance teams, but not all.

In high transaction volume organizations, undetected errors risk becoming well-kept and costly secrets, hidden in among thousands and thousands of transactions.

However, with specialized technology and expertise in financial data mining, undetected errors are possible to identify, and even correct, so that the lost money can be recovered. The process is known as recovery auditing.

Undetected errors

The most frequent and costly error type relates to mistakes in value-added tax (VAT) postings. International trade and local tax law make VAT a notoriously complex area for most kinds of organizations.

The second most common error type relates to payments. For example, invoices can occasionally be overpaid or even paid several times.

In this year's report, we have analyzed 26 million account postings from purchase transactions in 100 large Nordic organizations.

The scope has been expanded, including both undetected VAT and payment errors, and geographically including the Finnish market.

Method

Invoices and account postings to a total sum of 25 840 061 were analyzed. The sample was made from 25 randomly selected companies in Denmark, Finland, Norway, and Sweden, respectively. The base was Qvalia's customer projects during 2019.

The analysis of each company's data was made with an algorithmic screening process focusing on identifying 45 potential error variables in the invoice handling and account postings in the general ledger and invoice data.

The errors resulted in lost money was due to:

- Undeducted or underdeducted VAT
- Overpayments
- Double payments

Each deviation was double-checked manually by an expert during the screening process and confirmed as an error by the organization.

Of every error that passed undetected through the organizations' internal accounts payable processes, an average factor of 4X more errors among the Nordic organizations were identified and corrected internally by the finance team.

How we calculated cost estimates

Research about the full cost of organizational invoice handling, which includes account postings and hidden costs of errors, is limited.

Billentis stated in Business Case E-invoicing/E-billing (2017) the processing cost of paper and PDF purchase invoices to 17.60 EUR per invoice and 6.40 EUR for electronic invoices (e-invoices). "Codification and posting" was estimated to EUR 3 for paper and PDF invoices, and 0 EUR for e-invoices. "Codification and posting" is, in this report, referred to as "invoice postings", "account postings" or "accounts payable postings".

The total cost of processing e-invoices is significantly lower than paper and PDF invoices. The share of e-invoice adoption in the Nordics is estimated at 40%. To reflect accurate estimations of the total processing costs, we calculated based on a 50% share of e-invoice.

Time spent for corrections that were identified internally within the accounts payable process was estimated to a moderate 10 minutes per error.

How we made the sample

Organizations included in the sample were companies in Denmark, Finland, Norway, and Sweden with EUR 100 million in annual revenue or more.

Industries represented include retail, manufacturing, financial services, ICT, construction, transportation, and public sector organizations.

For each organization, the analyzed invoice and accounting data was the total volume of purchase transactions during at least a full year from 2013 to 2019.

Result

Among the studied organizations, 0.53% of all invoices were initially booked incorrectly in the accounts payable process. 0.11% passed unnoticed and resulted in money loss. VAT related errors were more common and on average more costly than payment related errors.

In relation to the total organizational purchase volume, 0.011% was lost due to the undetected errors.

Even the best-in-class countries in the Nordics show significant money losses in relation to the accounts payable cost of invoice postings.

Compared to last year's report, the loss was lower in the Nordic countries that were previously included. However, no general conclusions can be drawn by comparing the two studies due to the relatively limited time period and sample size. The figures are of interest as a guidance and an indication of a broader phenomenon.










Denmark was best-in-class with the lowest amount of undetected errors. Finland had the lowest money loss compared to the cost of handling invoice postings. However, in both Denmark and Finland, 20% of the cost of handling was still lost due to errors.

The highest costs for undetected accounts payable errors were found in Norway and Sweden. Both countries had lower costs of errors in relation to the total cost of invoice handling postings compared to last year's report. Still, 1/3 of the cost in Norway, and slightly less than half of the cost in Sweden, were lost due to undetected errors.










The aggregated result, and the result per country, is presented separately. Figures in brackets show, where applicable, results from last year's report, including findings for 2018.

The study has been expanded from last year, which reduces the comparability with exception from country-specific findings related to VAT.



| | | |
|---|------------|--|
|  | 100 | Analyzed companies and organizations |
|  | 25 840 061 | Analyzed invoices |
|  | 0.53% | Total error level including corrections made internally |
|  | 0.11% | Invoice errors passed undetected |
|  | 0.11% | VAT errors |
|  | 0.007% | Payment errors |
|  | 0.44 EUR | Average loss per every invoice managed |
|  | 29% | Cost of undetected errors as a share of the total cost of invoice postings |
|  | 31 days | Full-time working days on average required for internal correction |



| | | |
|---|----------------------|--|
|  | 25 | Analyzed organizations |
|  | 3 192 356 | Analyzed invoices (2 157 924) |
|  | 0.40% | Total error level |
|  | 0.08% | Invoice errors passed undetected |
|  | 0.08% | VAT errors (0.06%) |
|  | 0.02% | Payment errors |
|  | 2.31 DKK 0.31 EUR | Average loss per invoice (6.30 DKK) |
|  | 20.4% | Loss as share of organizational cost of invoice postings (56%) |
|  | 11 days | Full-time working days on average required for internal correction |










Danish organizations had an increase in the amount of invoice handling errors relating to VAT, but the mistakes were much less costly than the previous year.

The loss from hidden errors compared to the total cost for codification and posting in the accounts payable process was slightly above 20%.

Denmark had the lowest time spent internally for correcting errors, 11 working days on average per organization.



Finland










| | | |
|---|------------|--|
|  | 25 | Analyzed organizations |
|  | 11 466 903 | Analyzed invoices (-) |
|  | 0.47% | Total error level |
|  | 0.09% | Invoice errors passed undetected |
|  | 0.09% | VAT errors (-) |
|  | 0.003% | Payment errors |
|  | 0.29 EUR | Average loss per invoice (-) |
|  | 19.5% | Loss as share of organizational cost of invoice postings |
|  | 47 days | Full-time working days on average required for internal correction |

Finnish organizations had the lowest error cost as a share of total posting cost of all countries, but with a slightly higher number of errors than Denmark.

Among the Nordic countries, organizations in Finland spent most time internally to correct postings, 47 working days on average per organization.



Norway










| | | |
|---|----------------------|--|
|  | 25 | Analyzed organizations |
|  | 5 827 429 | Analyzed invoices (6 960 423) |
|  | 0.73% | Total error level |
|  | 0.15% | Invoice errors passed undetected |
|  | 0.14% | VAT errors (0.11%) |
|  | 0.14% | Payment errors |
|  | 6.78 NOK 0.60 EUR | Average loss per invoice (6.32 NOK) |
|  | 37% | Loss as share of organizational cost of invoice postings (43%) |
|  | 38 days | Full-time working days on average required for internal correction |

Norwegian organizations reduced the amount of lost money due to undetected errors compared to last year, but the number of errors had increased significantly.

The number of errors related to payments was the highest among the Nordic countries, indicates a potential need to improve in accounts payable processes.

38 working days was spent internally to correct postings in Norway.



| | | |
|---|----------------------|--|
|  | 25 | Analyzed organizations |
|  | 5 353 373 | Analyzed invoices (6 498 811) |
|  | 0.54% | Total error level |
|  | 0.11% | Invoice errors passed undetected |
|  | 0.11% | VAT errors (0.11%) |
|  | 0.004% | Payment errors |
|  | 7.42 SEK 0.68 EUR | Average loss per invoice (8.61 SEK) |
|  | 46% | Loss as share of organizational cost of invoice postings (54%) |
|  | 25 days | Full-time working days on average required for internal correction |

Sweden had fewer errors in total than Norway, but a higher monetary loss per invoice.

VAT errors were on the same level as last year. The money loss due to accounts payable errors as a share of organizational cost per posting and codification was lower than last year, but still close to half of the average organization's total cost for invoice postings.

Payment errors were the second-highest compared to the other Nordic countries.

Common errors in accounts payable

Accounting errors and hidden money leakage have a variety of causes. Presented below are the most common.

Scanning and OCR

Supplier invoice data is often misinterpreted during the optical character recognition process (OCR) of paper and PDF invoices. There is a high risk that these errors will pass unnoticed in subsequent processing steps.

VAT

Value-added tax legislation is complex, varies over time, and from country to country. Even simple mistakes can lead to significant deduction losses.

Missed discounts

Entitled discounts might have been missed.

Overpayments

Manual errors, or low-quality scanning, constitute a risk of associating wrong invoice figures to payments - and pay more than required.

Double payments

If a supplier invoice is sent more than once, or if you receive a reminder, there is a risk that both invoices are being paid.

Credit notes

Before paying invoices, it might be a good idea to check if you have outstanding credits from the supplier.

About Us

Qvalia improves and automates finance processes.

We are the leading Nordic expert in financial data mining and recovery audit. Our cloud-based software platform provides complete solutions to automate accounts payable, accounts receivable, and transactional accounting for organizations of all sizes.

The result is increased efficiency, reduced costs, and detailed real-time insights into organizational spending.

Get **recovery audit consultancy buyer's guide** to find out how financial data mining and recovery audit services can help you analyze your accounting data and recover lost money.

[Download the guide](#)

Sign up for Qvalia's finance automating platform with free e-invoicing today.

[Sign up for free today](#)

