

Code of Practice on Electronic Invoicing in Europe

24th March 2009

Version 0.17

Approved by Expert Group Plenary on 24th March 2009

This Code of Practice on Electronic Invoicing in Europe is recommended for implementation when and if the amended Directive on VAT as proposed by the European Commission on 28 January 2009 comes into effect.

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1 Objectives

Trading parties, solution providers and tax authorities need legal certainty, a key element for a proper functioning of the Internal Market and for realizing the huge process, labour and cost-efficiency benefits, which electronic invoicing processes could provide.

Legal certainty requires clear, easy to apply and EU wide harmonised regulations which are uniformly implemented by Member States across the EU and uniformly applied by the relevant tax administrations in the Member States.

The objective of this Code of Practice is therefore:

- to provide legal certainty for business in Europe in processing invoices by electronic means, and
- to foster an e-invoicing friendly environment in Europe by increasing mutual trust between all involved parties in the processes applied.

This will assist business and authorities to meet present and future regulatory requirements for electronic invoicing and to assure them on the best practice applied consistently across Europe.

The practices are equally applicable to transactions taking place within and between Member States of the European Union and could also be used to drive a common approach in countries outside the EU.

Full harmonization of provisions governing electronic invoicing within the EU27 should be a key objective in the interests of the Single Market and ease of use for trading parties across Europe to create a level playing field and legal certainty. There should be no distinction between invoicing carried out on a domestic basis or between Member States. The same harmonized provisions should apply for both e-invoices related to domestic transactions and for those related to intra-community transactions.

Many of these principles are already practiced in the EU27, and in some member countries these principles are explicitly stated in National Guidance Documents.

2 Core Principles

Each implementation of electronic invoicing in Europe should be based on the following core principles:

- 2.1 Equality of treatment: It should be as easy to issue and receive electronic invoices as it is with paper invoices. No legislative or other requirements should be imposed on electronic invoices above those that exist for paper invoices today.
- 2.2 Technology neutrality: Technological neutrality should be maintained in order to provide trading parties with choice over current and future solutions and to ensure the integrity of their processes.
- 2.3 Business controls: The prime means of providing legal certainty in the e-invoicing process should be the administrative, risk management and business control framework of the trading parties. These may include the matching of relevant documents and data throughout the invoicing process, accounting and archiving procedures, and auditability by internal and external auditors, or any other means or processes implemented by trading parties that provide the equivalent level of assurance.
- 2.4 Mutual Recognition: To ensure a proper functioning of the Internal Market Member States should mutually accept the business control framework and other recognised implementation methods of trading parties involved in EU cross-border transactions (e.g. a German supplier's business control framework / recognised implementation methods should be accepted by its UK customer's tax authority).
- 2.5 Auditability: Businesses must be able to demonstrate and explain their administrative and control capability. Businesses must maintain an audit trail, including the underlying transaction data and any relevant supporting documentation and data, which must be accessible towards external auditors, both statutory and tax. Accessibility must be ensured for at least six years.
- 2.6 Readability: Businesses must ensure that the competent tax authority and all other relevant parties can humanly read, readily interpret and audit the underlying transaction data and any relevant supporting documentation and data.
- 2.7 Maximum choice: In order to ensure that technologies and business processes can freely evolve, and to allow enterprises to optimize these business processes and administration in a manner that best suits their unique business environments, Member States should allow enterprises to freely choose how they structure and operate the relevant business processes within the framework set out in this Code of Practice.
- 2.8 Proportionality: Businesses should not be required to implement control measures for auditability purposes that are disproportionate to their individual circumstances. Circumstances that must be taken into account include, but should not be limited to, the size of a company, the nature of its business, the value and frequency of its

transactions, its number of trading partners and the stability of its trading partner network.

- 2.9 Use of service and solution providers: Where required, trading parties are free to use service and solution providers. Where they have agreed to use one or more providers, they should explicitly authorise such provider(s) to perform the agreed outsourced processes, including tax relevant processes, on their behalf, whilst considering that each trading party is responsible in its role as a taxpayer for the validity of its returns and claims.
- 2.10 Public and private sector: It is important that provisions regulating invoicing processes apply equally to trading involving both the private and public sectors and facilitate the whole procurement process and the data exchanged in the process.
- 2.11 Legal harmonisation and simplification: Member States may not impose, both in VAT and in other areas of law, any obligations or formalities other than those laid out in the Commission's proposal in relation to the transmission and storage of invoices.

These core principles are essential to foster a prosperous future environment for e-invoicing across the European Union. They can only be successfully implemented into practice if standards, business requirements and legislation converge towards a common approach. Legislative changes are required to create legal certainty, mutual trust and therefore a level playing field across the EU, which the Commission wants to achieve with its recently published Invoicing Proposal.

3 Core Principles – Implementation and Benefits

In order to provide assistance to businesses and tax authorities in adequately implementing the above defined Core Principles, it is fundamental to identify and clearly describe the implications of the Core Principles for the different market participants.

This section of the document will support the European e-Invoicing stakeholders in giving the complete picture and understanding of future legal market developments and expectations.

Two main actors have been identified:

- Tax authorities, and
- Businesses exchanging e-invoices.

In the following part of this section of the document key implications for these actors are described.

Solution providers have not been individually addressed in this document as they will be responsible for delivering solutions that fully meet business requirements, in accordance with the Core Principles.

3.1 Tax Authorities

Tax authorities have a particular interest in invoices as they are an important document from the VAT perspective. It is the document on which the VAT value of a supply is calculated and from which VAT declarations are derived. To demonstrate that VAT declarations are correct businesses will have implemented a commensurate administrative and control environment like or equivalent to that described later in section 3.2, and a system that provides auditability, including an appropriate audit trail. If a business has this environment in place, and they will because it is a precursor to a successful business operation, it is immaterial whether the invoice is paper or electronic, tax authorities will be able to verify business' VAT declarations.

Whether businesses use paper or electronic invoices a proper audit trail needs to be maintained and available both for internal and external auditors. Businesses need to comply with these aspects based on the regulations already in place across EU Member States. The invoice is only one important document in the value chain of transactions for the supply of goods and services and therefore only one important document in the audit trail. Other relevant documents include purchase orders, transport documents, delivery notifications and remittance advices. These documents need to be auditable and accessible and tax authorities can ask for them within their audit process. Additionally, tax authorities are entitled to ask for electronic access to the business' ERP systems, which allows them to carry out detailed checks and reconcile the systems entries with the underlying transaction documentation. Based on the regulations already in place across the EU, proper auditability of the business' transactions, processes, systems and underlying documentation is, therefore, also guaranteed in an e-invoicing environment.

Where invoices are in electronic form there can be a significant increase in audit efficiency of benefit to both tax authorities and businesses. As the data is readily available in electronic form, computer assisted audit techniques and statistical sampling can be used to validate the data. Also, electronic document archives enable quick access to information. Examination and cross-checking of information becomes dramatically faster.

Moreover, electronic invoicing allows businesses to use innovative business processes, which can incorporate high reliability control measures. This can reduce the risk of errors in VAT declarations and therefore provide certainty to businesses and tax authorities.

There remains a lack of standards in e-invoicing practice. Significant efforts are currently being invested in developing new e-invoicing technologies and market practices. Any regulatory intervention to narrow the scope of potential options is likely to harm innovation in this area. It is important that businesses in Europe can choose the e-invoicing technologies, business control framework and processes that best fit their unique circumstances. Businesses must be able to implement the e-invoicing processes they wish, without fear of being penalized merely because they have not used a pre-defined form or method. Imposing limited options for e-invoice implementation is not only counterproductive for businesses, but also the European economy

Tax authorities should therefore implement the Core Principles, by, for example:

- Developing, through Fiscalis, and implementing common, transparent audit guidelines;
- Fostering mutual cooperation in auditing across Member States.

3.2 Businesses

It is important that all businesses participating in the e-invoicing market are provided with legal certainty through a user-friendly regulatory and legal framework. This is the key aspect for mutual trust and for a prospering e-invoicing future. At the same time, these businesses need to operate and demonstrate stable, reliable and auditable business processes to provide internal and external auditors with the assurance they require.

By applying the Core Principles of this Code of Practice, businesses will be able to provide the required reliability and certainty of their e-invoicing process through a satisfactory level of controls and procedures embedded in their operations. It is also recognised that businesses may want to supplement the controls embedded within their business processes by using existing and future technologies or services, in line with their business needs. Businesses must be allowed to implement such control measures that are proportionate to their individual circumstances. Controls can be set at any point within the business processes supporting the supply chain between trading parties, so as to maximise their effectiveness.

The invoice is an important document in the value chain of transactions for the supply of goods and services. Other relevant documents include purchase orders, transport documents, delivery notifications and remittance advices. Together such documents form a chain of inter-locking documentation providing a foundation for business control framework to provide evidence on a valid business transaction.

The business control framework may consist of an invoice exchange process whereby the buyer, upon receipt of the invoice, cross-checks/validates the invoice with other critical business data including at a minimum purchase orders. The inclusion of contract performance (e.g. delivery) data, where available, in this reconciliation may further strengthen the buyer's evidence position. Most business controls validate the invoice to other parts of the cycle (purchase order, contract, receipt of goods, transport documents, etc.) and the master data for the supplier involved (static data such as VAT ID-No., bank accounts, etc.). The controls inherent in the invoice lifecycle, when fully implemented, provide a satisfactory business control framework. A risk-analysis based approach that demonstrates typical business risks and controls to mitigate those risks should also be included and be based on the business' individual circumstances, which include, for example, the size of a company, the nature of its business, the value and frequency of its transactions, its number of trading partners, etc.

To meet their individual business control framework circumstances businesses are free to implement supplementary controls. Examples of supplementary controls which can be utilized include, but are not limited to:

- Closed system controls: Control processes can be enhanced by businesses using value-added networks, other managed networks, bilateral EDI or comparable processes. Controlled exchange environment and automated message verification in the structured exchange makes controls easily reproducible.
- Data-level controls: Companies can place the emphasis of control on the data level by using techniques such as electronic signatures. A consistent application of data-level technologies throughout the process, including archiving, can enable parties to ensure enhanced protection at data-level.

- Sealed-off environment: In some environments enhanced reliability, certainty and auditability can arise as a result of the invoice being created, received and stored in a sealed-off hosted service environment.

The above mentioned examples can be managed in-house but could also be outsourced.

Businesses are free to use any technology tool to foster e-Invoicing adoption and innovation that meets the defined Core Principles as described in section 2.

Audit trails must be maintained and be available, for both internal and external auditors, that make it possible to reproduce significant steps in the process (both system and documentation) to comply with regulations already in place across EU Member States. Third party audit reports may strengthen evidence of historical correctness of non-reproducible processes. Storage solutions used in this option must guarantee a proper audit trail of both systems' data and documentation, including invoices, as well as reasonable measures to avoid their loss.

An electronic invoicing system that is consistent with but not limited to any of the above mentioned implementation methods should be automatically recognized by all Member States. Businesses are therefore entitled to assume that these recognised implementation methods will be accepted by other Member States when conducting electronic invoicing between different EU Member States.

The 'CEN/Fiscalis Good Practise Guidelines' for e-invoicing can be used by business to support self-assessment of the robustness of their preferred e-invoicing solution.

4 Implementation of the Code of Practice by Businesses

The provisions of the Code of Practice would be considered as advisable for implementation by trading parties in a number of ways, as follows:

- Such provisions as are selected from the Code of Practice could be incorporated in a bilateral agreement entered into between trading parties on a voluntary basis.
- Such provisions as are selected from the Code of Practice could be incorporated in an organization's general terms and conditions and placed on record to its trading parties.
- Such provisions as are selected from the Code of Practice could be agreed by the trading parties in writing by way of a simple implementation memorandum and kept as proof towards external parties, which demonstrates the existence and common understanding of the process the trading parties put in place.
- Service Provider Agreements could contain a set of selected provisions which become binding for its users.
- Businesses should make reasonable efforts to support a range of recognized implementation methods as defined above and as expected by their trading parties
- In all cases, the trading parties are responsible for taking the necessary practical steps to give effect to the recommended practices, cooperating as required with their trading partners and solution providers as part of their normal commercial relations.

In the final analysis each trading party is responsible for the appropriateness of its own control environment and in its role as a taxpayer for the validity of its returns and claims.

5 References

The above Code of Practice must be interpreted in the light of evolving technologies as well as business and audit processes and should create a freedom and environment for such technologies and processes to develop.

It might be of great importance and help to create a new representative body that represents all E-invoicing stakeholders and provides a forum to discuss, evaluate proposals, identify and promote best practices and monitor market developments.

Annex – Typical Invoice Lifecycle

The invoice is an important document in a set of documents in the value chain of transactions for the supply of goods and services. Other relevant documents include purchase orders, contracts, transport documents, delivery notifications and remittance advices.

All documents, i.e. invoices and supporting documents form a chain of interlocking documentation that covers all aspects of physical and actual fulfilment of an order or contract and the financial supply chain.

From these documents transactions are entered and processed in the business' accounting and/or other internal systems and the underlying documents are documented and/or stored by the business so that they are available when it comes to internal and external audits (both statutory and tax authorities). An invoice is not paid on a stand alone basis; an invoice is just one important document in the “purchase to pay” cycle and in the audit trail of a transaction.

A typical invoicing process is as follows:

1. Before an invoice is issued the business partners will have normally agreed a contract, have placed a purchase order, have already delivered or are about to deliver the respective product or service, and have created a customer or supplier master data file in their respective accounting system.
2. The supplier issues an invoice to request the payment due on the agreed supply.
3. At the same time the invoice gets booked in the supplier's ERP system and the respective documents underlying the transaction, e.g. order and dispatch note, will be stored by the supplier, creating an audit trail for the transaction.
4. The customer receives the invoice.
5. The invoice details will be captured into the customer's ERP system.
6. Before the customer pays the invoice it will go through an authorisation process (part of the business control framework). This will include checks on the invoice content, and that the invoice matches the purchase order / contract, receiver documents (e.g. good receipt note, etc.) and supplier master data
7. If any of the matches do not succeed, payment is not made and a dispute case is created to resolve the case so that payment can be made.
8. The invoice and all the underlying documents to the transaction are stored by the customer and an audit trail of the transaction (both system and documents) is available for internal and external audit purposes.

The invoice lifecycle for paper and electronic invoices is comparable.

For small businesses the invoice lifecycle will follow the same principles and have the same objectives but may be simpler operationally. The controls in place will be commensurate with the volume of transactions and size of business.