

Purchase Order Approval: The Control Point Between Demand and Procurement

Purchase order approval is the formal review and consent of a purchase order before it is sent to the supplier. It ensures that requirements, budget, prices and supplier selection comply with internal rules. It is therefore a central control instrument of procurement and at the same time a milestone in the approval-based procurement process.

Key facts

- Purchase order approval is the binding internal consent to a purchase order before it is transmitted to the supplier.
- Approval levels and monetary thresholds are typically defined in an approval matrix or schedule of authority.
- Without effective purchase order approval, risks such as maverick (Mazout) orders, budget overruns and circumvention of the preferred supplier increase.
- Digital workflows typically shorten the approval lead time to a few hours or days.
- Approval is not the same as invoice approval: it takes place before, the latter after, the service has been rendered.
- KPIs such as approval lead time and cancellation rate after approval make the quality of the process measurable.

Definition: purchase order approval

Purchase order approval denotes the internal review and authorisation of a purchase order by a person responsible by hierarchy or function before it is transmitted to the supplier. It is a control point that ensures that only economically justified, budgeted and compliant orders are placed.

Distinction from other types of approval

Purchase order approval precedes the order and reviews the requirement and its economic viability. Invoice approval workflow control, by contrast, takes place after the service has been rendered and checks whether delivery and invoice match the purchase order. The approval of enquiries or contracts must also be distinguished from this: contracts are approved once, while orders are often approved several times and step by step.

Legal classification

In external relations, purchase order approval has no effect towards the supplier; it is purely internal in nature. Internally, however, it establishes responsibilities: whoever approves assumes the functional and budgetary responsibility for the order. The concrete design – for example, delegation arrangements or documented arrangements for absences – should be governed by binding internal rules and reviewed legally on a case-by-case basis.

Procedure and methods of purchase order approval

In practice, the approval process follows a multi-stage pattern: requirement identification, review, approval and then transmission to the supplier. Its design depends on company size, compliance requirements and the maturity of the systems in place.

Approval matrix and monetary thresholds

An approval matrix frequently defines who may approve orders up to which value. Tiered thresholds typically apply: lower amounts may remain with the department, while higher amounts require management or executive approval. It is important that the matrix is documented in writing, well known and mapped in the ERP system. Delegation arrangements for holiday and illness cases prevent the process from stalling.

Review criteria before approval

The approver typically reviews: the existence and appropriateness of the requirement, compliance with the budget, correct supplier selection (if applicable, contracting via the Contract Repository), prices and terms, and the technical specification. For price components such as raw materials, which are variable due to price index linkage, approval may also include checking the plausibility of the price calculation.

Digital approval workflow

Modern ERP and e-procurement systems map the approval process as a digital workflow: purchase orders are automatically routed to the responsible approvers based on amount, cost centre and product group, including reminder functions and complete documentation. This significantly reduces lead times compared with paper-based procedures and provides audit security for internal and external reviews.

KPIs for steering the approval process

The quality of purchase order approval can be measured with a few practical metrics. They cover both the speed and the quality of the control.

Process metrics

Key metrics are the approval lead time (from order creation to approval), the share of first-time approvals without queries and the cancellation or change rate after approval has been granted. High cancellation rates indicate that requirements were inadequately reviewed or order templates were created incorrectly.

Compliance metrics

Also important are the share of orders placed without approval or with subsequent approval (so-called maverick or emergency orders), the rate of items procured outside framework agreements, and the number of rejected orders. These values show how disciplined the organisation is in following the process and where circumvention occurs.

Risks and controls

A weakly designed approval process carries significant financial and compliance risks. The main weak points can be addressed with clear controls.

Typical risks

Common risks are unauthorised orders by circumventing approval, budget overruns, procurement at excessive prices, duplicate orders, and orders placed with unsuitable or unvetted suppliers. Conflicts of interest, for example when the requester and the approver are the same person, are also considered a weak point – here compliance typically requires a separation of ordering and approval (four-eyes principle).

Effective controls

Proven controls include the four-eyes principle, system-enforced approval requirements, periodic analyses of circumvention cases and a clear distinction from emergency processes with a mandatory subsequent approval. In addition, data analytics in procurement can uncover anomalies such as accumulated micro-orders or suspicious supplier concentrations.

Current developments

Purchase order approval is increasingly moving into digital and semi-automated environments. Standardisation and system support are changing both the speed and the role of the approving persons.

Automation and artificial intelligence

In practice, routine transactions are increasingly approved automatically when defined criteria are met: framework agreement in place, price within the target corridor, budget covered. Systems with data analytics in procurement can flag anomalies and involve approvers only in the event of deviations. This relieves the burden on managers and sharpens the profile of the remaining approvals as genuine review instances.

Integration into the digital procurement process

Purchase order approval is increasingly embedded in end-to-end digital processes – from demand reporting via the Contract Repository to invoice processing. For technical buyers this means: specifications, drawings and test agreements can be viewed directly at approval, which facilitates quality checks and later delivery concepts. Moreover, data consolidation enables better reports on purchase price escalation rates and compliance with terms.

Typical metrics

Approval lead time: < 1 working day

typical benchmark in digitalised workflows; paper-based often considerably longer

Cancellation rate after approval: < 2 %

high values indicate inadequate requirement review

Share of circumvention cases (Mazout): < 1 %

orders without approval or with subsequent approval

First-time approval rate: > 90 %

share of orders approved without queries

Practical example

A medium-sized mechanical engineering company with around 400 employees previously routed purchase orders on paper forms through three levels – average approval lead time: four working days. Urgent spare parts were frequently ordered from the supplier by telephone in advance and only formally approved afterwards, leading to price deviations and gaps in documentation.

- Introduction of a digital approval matrix with monetary thresholds and automatic delegation rules in the ERP system
- Emergency process for spare parts with subsequent approval within 48 hours and mandatory justification
- Monthly reporting on lead times, circumvention cases and cancellation rates
- Integration of the Contract Repository so that contract-based orders are automatically flagged as compliant

Conclusion

Purchase order approval is more than a bureaucratic intermediate step: it is the central control valve that safeguards requirements, budget and supplier selection before the legal commitment of the purchase order. Well designed, it combines compliance and speed; poorly designed, it generates circumvention and inefficiency. Key success factors are a clear approval matrix, a documented emergency process and systemic control through the four-eyes principle. Digital workflows make the process measurable, auditable and fast. Companies that regularly review and automate their approval logic gain both process quality and procurement discipline.

Frequently asked questions

What is purchase order approval?

Purchase order approval is the internal authorisation of a purchase order by a responsible person before it is sent to the supplier. They review the requirement, budget, prices and supplier selection. Only after approval is the purchase order legally transmitted to the supplier.

Who may approve a purchase order?

This is usually governed by an approval matrix or schedule of authority that defines monetary thresholds and responsibilities. Typically, departments approve smaller amounts, while higher values require management or executive approval. Documented delegation arrangements and the separation of ordering and approval are essential.

What is the difference between purchase order approval and invoice approval?

Purchase order approval takes place before the order and checks whether something should be procured. Invoice approval occurs after the service has been rendered and checks whether the delivery and invoice match the purchase order. Both control points belong together but apply at different stages of the process.

Why is purchase order approval important?

It prevents unbudgeted or overpriced orders, protects against circumvention of framework agreements and creates complete documentation for audits. It also clarifies responsibilities: whoever approves bears the functional responsibility. Without effective approval, compliance and cost risks increase significantly.

How long does purchase order approval typically take?

This depends heavily on the process and the number of approval levels. In digitalised workflows with monetary thresholds, a few hours up to one working day are typical; in paper-based processes with several levels, it can take several days. Urgent cases should be covered by a defined emergency process with subsequent approval.

Can purchase order approval be automated?

Yes, in practice routine transactions are increasingly approved automatically when criteria such as an existing framework agreement, an accepted price and sufficient budget are met. Exception situations are then flagged by the system and reviewed manually. This speeds up the process and significantly reduces approvers' routine tasks.