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Structuring Effective Controls Over the Five Primary Transaction Cycles

Chapter 3:
Purchase to Pay



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CONTENTS

Using This Guide **1**

Purchase to Pay **2**

Overview of Purchase to Pay Processes **3**

From Cycle to Subprocess **4**

The Cycle: Purchase to Pay 4

Risk and Control Considerations: What Could Go Wrong? **6**

Control Definitions 7

Process: Vendor Management 11

Process: Procurement 12

Process: Accounts Payable/Invoice Processing 14

Process: Cash Disbursement 19

Financial Statement Assertions 27

Using the Risk-Control Matrix Template **28**

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Using This Guide

Internal control over financial reporting (ICFR) is an integral element in every financial leader's toolbox. Having the right controls, properly implemented, allows leaders to ensure that they have timely, accurate and complete financial information to make informed decisions. Weaver designed this guide as a roadmap to help any organization, regardless of industry, understand these cycles, the specific processes and subprocesses you need, and controls you can implement to manage your financial risks. It will also walk you through a step-by-step analysis of financial and operational risk and control considerations for the five primary cycles.

The five primary cycles are universal, in that every organization has them. However, every organization is unique in its exact processes and needs. As you use this guide and the downloadable risk-control matrices, you will need to examine your own processes to customize controls for your operations, while eliminating what is unnecessary.

What's Inside?

This chapter, Purchase to Pay, describes the processes, risks and recommended controls associated with selecting and purchasing supplies, inventory and services. Your organization may have a formal procurement department or a much simpler purchasing process; either way, you must select vendors, buy supplies, pay invoices and reimburse employee expenses.

Download the corresponding Risk–Control Matrix, which includes common processes, risks and controls that you can customize to your organization's specific needs.

Download the Complete Set

In addition to this chapter, the full set of *Structuring Effective Controls Over the Five Primary Transaction Cycles* includes an overview and four additional chapters with information about the other transaction cycles. It also includes illustrative risk–control matrices for all of the five cycles that you can use to help identify and begin closing gaps in your own controls.

All of the sections are available in Weaver's Executive Resource Center:

Structuring Effective Controls Over the Five Primary Transaction Cycles: Overview
Chapter 1: Treasury and Cash Management
Chapter 2: Sales to Collection
Chapter 3: Purchase to Pay
Chapter 4: Human Resources and Payroll
Chapter 5: Financial Close and Reporting
Risk–Control Matrices (complete set of five spreadsheets)

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Purchase to Pay



The **Purchase to Pay transaction cycle** includes all activities from the selection of goods and services to receiving invoices and paying vendors. The Purchase to Pay cycle generally starts with an employee identifying the need to purchase a good or services and completing a Purchase Requisition that describes the product or services needed and quantity required. Once complete, the requisition is sent to the Purchasing Department.

If there is a separate Procurement function, those personnel review the requisition and determines the appropriate procurement method to be used according to the Procurement Policy (e.g., Single Source, Bid Requirements, etc.). Once the procurement method has been selected, bid processes performed if appropriate, and the vendor acceptance process completed, then a purchase order is prepared and submitted to the vendor. The purchase order lists the products, quantity, and price. Typically, vendors then issue a purchase order acknowledgement to confirm receipt of the order and transaction details.

After the ordered goods have been received or the services performed, appropriate personnel inspect the quality and quantity of the materials received (or verify that services were sufficiently performed) and record the receipt against the purchase order within the system. Receipt of the goods and/or services creates the obligation to pay. Upon receipt of the vendor invoice, the Accounts Payable Department performs a three-way match (or two-way match if services have been provided and there is no formal receiving documentation) to ensure that the charges are valid and relate to actual goods or services received. Any variances are investigated and approved by supervisors before closing the purchase order or posting the invoice for payment.

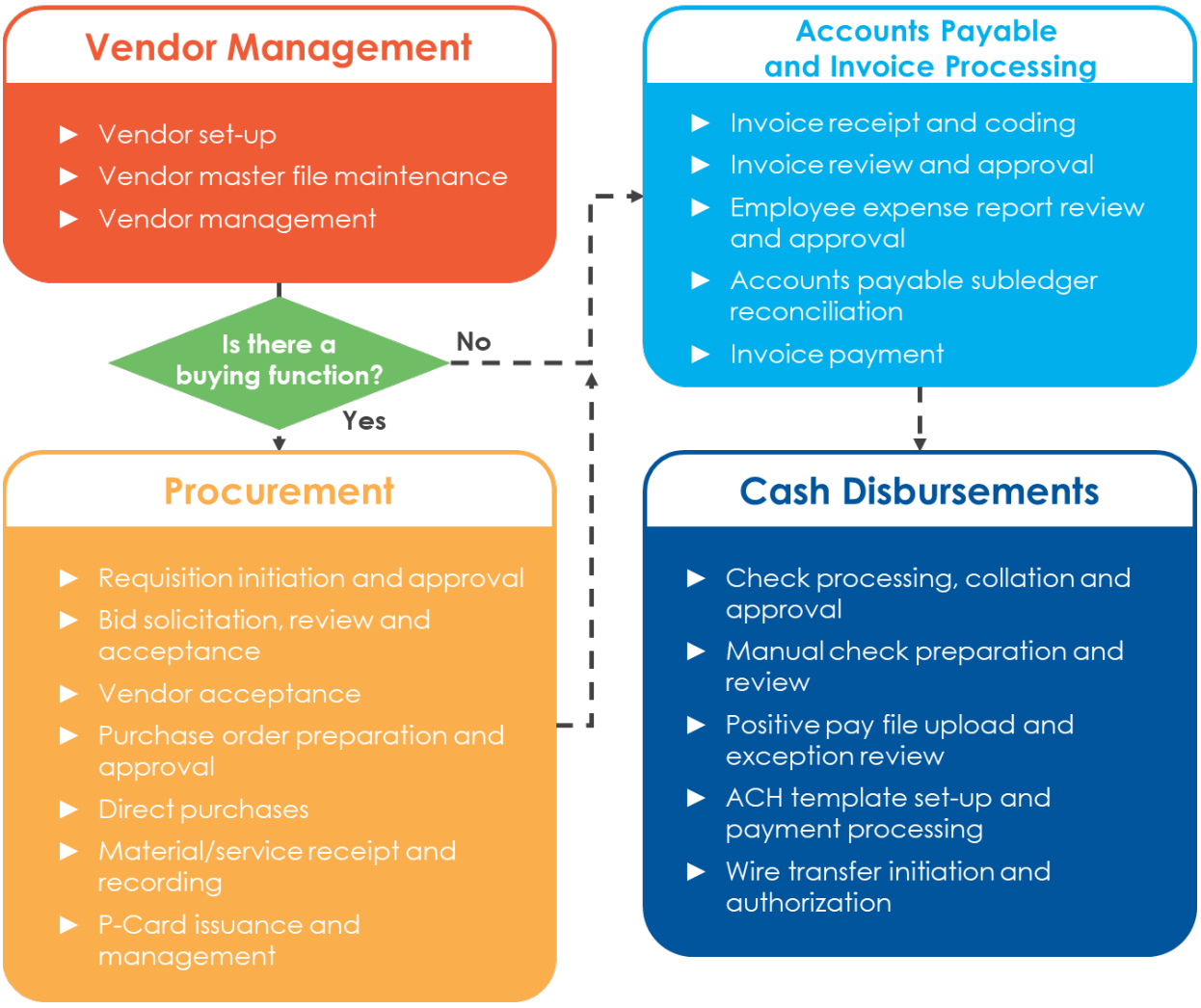
Accounts Payable personnel generally review invoices due throughout the month and work with Treasury or management to identify which vendors and/or invoices will be paid based on the organization's available cash. Once the invoices to be paid have been approved, the transactions are selected for payment and the payment run is processed.

Purchase to Pay transaction cycles involve all the activities involved in obtaining goods, hiring services, receiving invoices and paying vendors. Even organizations that do not have a separate Procurement function must still purchase materials and pay suppliers.

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Overview of Purchase to Pay Processes

Although organizations may employ different internal processes and tools, generally the Purchase to Pay transaction cycle looks something like this:



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From Cycle to Subprocess

The Purchase to Pay cycle includes three or four primary processes, depending on whether the organization employs a formal procurement process. Each of these processes includes several subprocesses. To manage risk in this transaction cycle, organizations must work from the bottom up to identify and manage risks in each individual subprocess.

The Cycle: Purchase to Pay

Process: Vendor Management

Subprocesses:

- Vendor set-up
- Vendor master file maintenance
- Vendor management

Process: Procurement (if applicable to your organization)

Subprocesses:

- Bid solicitation, review and selection
- Vendor acceptance
- Purchase requisition
- Purchase order preparation, review and approval
- Direct purchase of goods and services (non-PO)
- Material/service receipt and recording
- P-card issuance, usage and monitoring

Process: Accounts Payable and Invoice Management

Subprocesses:

- Invoice receipt and coding
- Manual/systematic three-way match
- Invoice review and approval
- Preparation and review of invoice batches
- Employee expense report preparation, review and approval
- Accounts payable subledger reconciliation

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Process: Cash Disbursement

Subprocesses:

- Identification, selection and approval of invoices to pay
- System check processing
- Check collation and approval
- Manual check preparation and review
- Positive Pay upload and exception approval
- ACH template set-up and payment processing
- Wire transfer initiation and approval

For explanations of the subprocesses, see the tables in the following section.

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Risk and Control Considerations: What Could Go Wrong?

The Purchase to Pay cycle represents significant risk of material misstatement because:

(a) Many incidences of financial statement fraud have involved the understatement of liabilities and expenses

(b) Fraudulent procurement transactions are common

(c) Payments could be made to unauthorized or fake vendors

The procurement process has a high inherent risk of fraud, as there are a number of procurement schemes that result in unauthorized purchases, unauthorized returns, inaccurate adjustments and allowances, etc. An example is a kickback, whereby a dishonest agent of the supplier pays a dishonest agent of the purchasing organization to select the supplier's bid, often at an inflated price.



Other frauds in procurement include:

1) Collusion among bidders to reduce competition
2) Providing bidders with advance "inside" information
3) Submission of false or inflated invoices for services / products that are not delivered or work that is never done
4) Intentional substitution of substandard materials without the customer's agreement
5) Use of "sole source" contracts without proper justification; 6) Use of prequalification standards in specifications to unnecessarily exclude otherwise qualified contractors
6) Dividing requirements to qualify for small-purchase procedures to avoid scrutiny or contract review procedures of larger purchases.

The **following charts summarize the key risks** for each major process and subprocess within the Purchase to Pay transaction cycle, along with controls that organizations should implement to manage those risks.

The risk and control tables also specify related **assertions in the financial statements**. Definitions of those assertions follow the tables (page 27).

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Control Definitions

Risk Considerations	Financial Statement Assertions	Control Considerations
SUBPROCESSES **Vendor Setup:** Processes to establish an account with a vendor and activities to set up the vendor record in the vendor master file		
What ensures vendors are authorized by supervisory personnel prior to entry into the system?	Existence/ Occurrence	Vendor Set-up Approval Vendor Set-up/Change Review User Access Review

These are the complete definitions or explanations for internal controls used in Purchase to Pay, as shown in the Risk and Control Considerations tables and the downloadable Risk-Control Matrix spreadsheet:

Vendor Set-up Approval: The Assistant Controller reviews the Vendor Setup/Change Form to verify it is accurate and the vendor packet is complete. The review is documented via sign-off on the hard copy of the form.

Vendor Set-up/Change Review: As needed, the Financial Reporting Analyst reviews a report of modifications to the vendor master file to ensure changes were accurately and completely recorded. The review includes agreeing vendor detail (name, tax ID, etc.) within the master file to the New Vendor/Owner Setup Form and supporting documentation (such as a contract, lease, or W-9).

User Access Review: Annually, management evaluates user access to the ERP system to ensure that only active employees have access, access is aligned with each employee's job function and tasks assigned to each individual are appropriately segregated.

Vendor Compliance Audits: Quarterly, the Accounting department selects a risk-based sample of vendors (based on historical and expected spend). For each vendor selected, a random sample of transactions is tested to ensure they adhere to terms and requirements stated in the vendor contract.

Vendor Contract Review: Contracts for goods or services are reviewed by the General Counsel.

Vendor Bid Review: All bids and proposals obtained from potential vendors are reviewed by a Selection Committee to identify the vendor who meets requirements.

Purchase Requisition Approval: A Purchase Request is approved by an appropriate individual based on the Delegation of Authority before preparation of a Purchase Order. The review includes verification of the purchase validity and agreement of the price to supporting documentation (e.g., a Price List). The approval is documented via sign-off on the hard copy of the Purchase Request.

Purchase Order Approval: Purchase Orders for raw materials that exceed the requirements identified in the inventory plan are approved by the Director of Purchasing before generation of the PO as evidenced by sign-off on the hard copy of the PO.

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Non-PO Invoice Review: Invoices for goods or services that were not ordered through a formal PO must be approved by an authorized individual before being entered into the A/P ledger.

Receipt of Goods: As goods are received, the individual accepting the delivery ensures that the quantities received agree with the shipping documentation (e.g. Packing List, Bill of Lading). Only goods or services that are actually received and accepted are marked as received**.**

Close Purchase Orders: Once all the goods or services on a PO have been marked as received, the PO is automatically closed in the system.

Open Purchase Order Review: At least monthly, the Purchasing Coordinator reviews all open POs to identify any that are 30 days outstanding or more. For any such POs, the Purchasing Coordinator inquires with the receiving personnel and/or requestor to determine whether the PO should be closed.

P-Card Issuance: All P-Card requests are reviewed and approved by the requestor's direct supervisor and Controller before issuance of a new P-Card. The approval is documented via manual sign-off on the hard copy of the P-Card Request Form.

P-Card Activity Review: Supervisors review employees' P-Card Activity Forms to ensure that expenses were valid and agree to supporting documentation. Approval is documented via sign-off on the hard copy of the P-Card Activity Form.

Recording P-Card Activity: The manual journal entry recording P-Card activity for the period is reviewed and approved by the Accounting Manager. The review includes verifying that the entry agrees to supporting documentation; was coded to the correct period, entity and general ledger accounts; and was recorded accurately and completely.

Segregation of Duties: The ability to enter invoices into the system is restricted to A/P Clerks, who do not have access to post invoice batches or edit POs. Additionally, the ability to post invoice batches in the system is restricted to A/P supervisory personnel, who do not have access to enter invoices into the system.

Review of A/P Batch Entries: A/P Supervisor reviews A/P entries to ensure that: 1) invoices were coded appropriately, 2) transactions were appropriately classified (e.g. capital vs. expense), 3) invoices agree to supporting documentation and 4) transactions are being recorded in the appropriate accounting period. The A/P Supervisor's review is documented via sign-off on hard copy of the A/P Batch Journalization Report.

Automated 3-Way Match: Before processing invoices associated with a PO, the system automatically performs a 3-way match between the invoice, receiving documentation and PO to ensure the accuracy of the invoice and confirm receipt of goods and/or services. All variances over 10% are identified, investigated and either resolved or documented before the invoice is processed.

Manual 3-Way Match: Before processing invoices associated with an approved PO, A/P Clerks perform a 3-way match to ensure that the invoice agrees to the Purchase Order line item and ensure that goods have been received and/or services performed. All variances over 10% are identified, investigated and either resolved or documented before the invoice is processed.

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Review of 3-Way Match Exceptions: The VP of Operations reviews and approves variances between invoices and POs to ensure the variance is appropriate before recording the transaction. Approval is documented electronically within the system.

Employee Expense Review: Supervisors review employees' expense reimbursement forms to ensure the expenses were valid and agree to supporting documentation. Review and approval is documented via sign-off on the hard copy of the expense reimbursement form.

A/P Account Reconciliation: Monthly, the Controller reviews the AP Account Reconciliation by verifying the preparer agreed the AP Aging Report to the current period general ledger balances, the calculations were appropriate, and all variances greater than a pre-set threshold are investigated and documented. The Controller's review is documented via tickmarks and notations on the supporting documentation and sign-off on the reconciliation cover sheet.

Check Register Reconciliation: Once the check writing process has been completed, the A/P Supervisor reconciles the physical checks generated to the A/P Checks Printed Report, A/P Invoices Selected for Payment Report, and Approved A/P Check File to ensure that the check run was processed accurately and completely.

Disbursement Review: Before completing the system check run (or drafting manual checks), the VP of Finance reviews the Check Register and checks greater than $50,000 to ensure that significant disbursements are valid and agree to supporting documentation. The review is documented via endorsement on the check.

Cash Requirements Review: The Accounting Manager reviews the Recommended Payments Report to ensure only payments due are included on the report and identify vendors on "hold" status, suspicious vendors or suspicious activity. The review is documented via sign-off on the hard copy of the Recommended Payments Report.

Cash Requirements Approval: Assistant Treasurer, VP of Operations and Assistant Controller review the Recommended Payments Report to ensure there is adequate cash on hand to pay selected invoices and identify suspicious vendors or suspicious activity. The review is documented via sign-off on the hard copy of the Recommended Payments Report.

Check Stock Custody: System and manual check stock is maintained in a secured location by an individual who does not have the ability/authorization to process or sign checks. A check log is maintained that shows the check number range, requester and approver for each check run.

Manual Check Review: The A/P Supervisor reviews the A/P Manual Check Voucher and supporting documentation to verify that the check or wire was entered properly into the system, as evidenced by signature on the A/P Manual Check Voucher or Wire Log.

Positive Pay Exceptions: When a check is presented that does not have a "match" in the Positive Pay File, the bank identifies the check as an exception and holds the check in the Fraud Filter until it can be reviewed and approved by an authorized representative.

Approval of Positive Pay Exceptions: The Director of Treasury reviews Positive Pay exceptions (checks presented for payment that do not match the Payment History Report).

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Approval of ACH/Wire Transfers: The Director of Treasury reconciles ACH and wire transactions setup within the bank portal against applicable supporting documentation (e.g. AP Check File, etc..) to ensure the EFT payments are submitted to the bank accurately and completely.

Dual Approval for EFTs: Dual approvals are setup in the banking portal to require that all ACHs and wire transfers are initiated and released by separate individuals.

Wire Transfer Authorization: The Chief Accounting Officer reviews Wire Transfer Packets to ensure the wire is properly set up prior to release. The review is documented via sign-off on the hard copy of the Wire Transfer Form.

Portal Access Review: Annually, the VP of Finance performs a formal review of user access within the bank portal to ensure that only current employees have access to the system, access rights match responsibilities, and approval rights are appropriately segregated.

Using with the Risk-Control Matrix:

These controls also map to the downloadable Risk-Control Matrix for Purchase to Pay, with control titles in Row 8 and definitions in Row 9.

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Process: Vendor Management

Risk Considerations	Financial Statement Assertions	Control Considerations
SUBPROCESSES **Vendor Setup:** Processes to establish an account with a vendor and activities to set up the vendor record in the vendor master file		
What ensures vendors are authorized by supervisory personnel prior to entry into the system?	Existence/ Occurrence	Vendor Set-up Approval Vendor Set-up/Change Review User Access Review
SUBPROCESSES **Vendor Master File Maintenance:** Activities to set up vendors in the master file and make additions or changes to existing vendors; includes activities to ensure that access to the vendor master file is restricted to maximize segregation of duties		
What ensures new vendors' attributes and details are entered into the vendor master file accurately?	Accuracy Completeness	Vendor Set-up Approval Vendor Set-up/Change Review User Access Review
What ensures only authorized changes are made to the vendor master file?	Existence/ Occurrence	Vendor Set-up/Change Review User Access Review
When ensures modifications to the vendor master file are identified, reviewed and approved prior to entry?	Existence/ Occurrence Accuracy	
What ensures access to the vendor master file is restricted to the appropriate individuals and does not result in inappropriate segregation of duties?	Rights & Obligations	User Access Review
SUBPROCESSES **Vendor Management**:** Activities performed to ensure that vendors adhere to contractual terms and requirements ***This subprocess may not be relevant for internal control over financial reporting; however, it is an integral part of the transaction cycle*		
What ensures that vendors comply with contractual terms and requirements?	Rights & Obligations	Vendor Compliance Audits Vendor Contract Review

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Process: Procurement

(For organizations with formal procurement or bid processes)

Risk Considerations	Financial Statement Assertions	Control Considerations*
SUBPROCESSES **Bid, Solicitation, Review and Selection**:** Activities to notify prospective bidders of the organization's wish to receive bids on the specified product or project; also includes the procedures to select the vendor to whom the contract will be awarded **Vendor Acceptance**:** Activities to qualify vendors by ensuring they meet applicable requirements, negotiation of the contract or Master Service Agreement (MSA), and approval of the selected vendor ***Subprocess may not be relevant for internal control over financial reporting, but is an integral part of the transaction cycle*		
What ensures vendors meet all requirements (insurance, safety, etc.) and are authorized?	Existence/ Occurrence	Vendor Bid Review Purchase Requisition Approval Purchase Order Approval
What ensures contracts do not contain inappropriate or self-dealing terms?	Rights & Obligations	Vendor Bid Review Vendor Contract Review Purchase Requisition Approval Purchase Order Approval
SUBPROCESSES **Purchase Requisition:** Identification of goods and/or services needed and the preparation and review of purchase requisitions **Purchase Order Preparation, Review and Approval:** Activities performed to obtain approved purchase requisitions and to prepare, approve and issue the Purchase Request **Direct Purchase of Goods and Services:** Activities to purchase goods or services without the use of a purchase order		
What ensures purchases of goods/services are properly authorized before the order is placed?	Existence/ Occurrence Rights & Obligations	Purchase Requisition Approval Purchase Order Approval Non-PO Invoice Review
What ensures purchase order modifications are properly authorized?	Accuracy Existence/ Occurrence	Purchase Requisition Approval Purchase Order Approval

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Risk Considerations	Financial Statement Assertions	Control Considerations*
SUBPROCESSES **Material/Service Receipt and Recording:** Procedures to receive goods and/or services, verify them against the related Purchase Order, accrue the corresponding liability, and record the corresponding asset or expense at the time of delivery		
What ensures that general ledger account coding associated with the purchase order is accurate?	Accuracy Completeness Presentation & Disclosure	Purchase Requisition Approval Purchase Order Approval
What ensures that quantities and pricing of goods or services received are accurately entered at the time of receipt?	Accuracy Completeness	Receipt of Goods
What ensures purchase orders are closed when all goods have been received?	Accuracy Completeness Cutoff	Close Purchase Orders Open Purchase Order Review
SUBPROCESSES **P-Card Issuance, Usage and Monitoring:** Activities performed to approve P-Card requests, activate approved P-Cards, and monitor use of active P-Cards. Additionally, this subprocess includes activities to record P-Card activity to the general ledger		
What ensures only authorized employees have procurement cards?	Accuracy Completeness	P-Card Issuance P-Card Activity Review Recording P-Card Activity
What ensures procurement card activity is recorded accurately in the general ledger and reported in the appropriate accounting period?	Accuracy Completeness Cutoff	P-Card Activity Review Recording P-Card Activity

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Process: Accounts Payable/Invoice Processing

Risk Considerations	Financial Statement Assertions	Control Considerations*
SUBPROCESS **Invoice Receipt and Coding:** Activities performed by Accounts Payable (A/P) personnel to receive invoices, review them, route them for approval, and code transactions to the appropriate general ledger account		
What ensures proper segregation of duties in processing, approving and posting invoices?	Existence/ Occurrence	User Access Review Segregation of Duties Review of A/P Batch Entries A/P Account Reconciliation
What ensures that invoice coding properly capitalizes or expenses the purchase?	Accuracy Classification & Understand-ability	User Access Review Purchase Requisition Approval Purchase Order Approval Non-PO Invoice Review Close Purchase Orders Open Purchase Order Review Review of A/P Batch Entries
SUBPROCESS **Manual or Systematic Three-Way Match:** Procedures performed to compare quantities, prices and terms on the vendor invoice to the corresponding purchase order and receiving documentation		
What ensures invoices reflect correct prices and quantities and agree to the purchase order?	Existence/ Occurrence Completeness Accuracy	Non-PO Invoice Review Close Purchase Orders Open Purchase Order Review Automated Three-Way Match Manual Three-Way Match Review of Three-Way Match Exceptions
What ensures fictitious or duplicate invoices are not recorded?	Existence Accuracy	Non-PO Invoice Review Close Purchase Orders Open Purchase Order Review Automated Three-Way Match Manual Three-Way Match Review of Three-Way Match Exceptions A/P Account Reconciliation

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Risk Considerations	Financial Statement Assertions	Control Considerations*
What ensures invoices reflect actual goods or services received?	Existence/ Occurrence Accuracy	Non-PO Invoice Review Close Purchase Orders Open Purchase Order Review Review of A/P Batch Entries Automated Three-Way Match Manual Three-Way Match Review of Three-Way Match Exceptions
SUBPROCESS **Invoice Review and Approval:** Review of vendor invoices to ensure charges relate to valid goods or services rendered and that the transactions are coded to the appropriate general ledger accounts		
What ensures invoices reflect correct prices and quantities and agree to the purchase order?	Existence/ Occurrence Completeness Accuracy	Non-PO Invoice Review Close Purchase Orders Open Purchase Order Review Automated Three-Way Match Manual Three-Way Match Review of Three-Way Match Exceptions
What ensures invoices reflect actual goods or services received?	Existence/ Occurrence Accuracy	Non-PO Invoice Review Close Purchase Orders Open Purchase Order Review Review of A/P Batch Entries Automated Three-Way Match Manual Three-Way Match Review of Three-Way Match Exceptions
What ensures accounts payable are recorded in the period when services/goods are received?	Completeness Accuracy Cutoff	Review of A/P Batch Entries A/P Account Reconciliation

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Risk Considerations	Financial Statement Assertions	Control Considerations*
What ensures fictitious or duplicate invoices are not recorded?	Existence Accuracy	Non-PO Invoice Review Close Purchase Orders Open Purchase Order Review Automated Three-Way Match Manual Three-Way Match Review of Three-Way Match Exceptions A/P Account Reconciliation
What ensures that invoice coding properly capitalizes or expenses the purchase?	Accuracy Classification & Understand-ability	User Access Review Purchase Requisition Approval Purchase Order Approval Non-PO Invoice Review Close Purchase Orders Open Purchase Order Review Review of A/P Batch Entries
SUBPROCESS **Preparation and Review of Invoice Batches:** Procedures performed to accumulate approved invoices and prepare the batch entry to record payables		
What ensures secured access to the A/P system by authorized personnel only?	Existence/ Occurrence	User Access Review
What ensures invoice prices, quantities and other information were entered properly into the system?	Completeness Accuracy	User Access Review Purchase Requisition Approval Purchase Order Approval Review of A/P Batch Entries Automated Three-Way Match A/P Account Reconciliation

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Risk Considerations	Financial Statement Assertions	Control Considerations*
What ensures fictitious or duplicate invoices are not recorded?	Existence Accuracy	Non-PO Invoice Review Close Purchase Orders Open Purchase Order Review Automated Three-Way Match Manual Three-Way Match Review of Three-Way Match Exceptions A/P Account Reconciliation
What ensures that invoice coding properly capitalizes or expenses the purchase?	Accuracy Classification & Understand-ability	User Access Review Purchase Requisition Approval Purchase Order Approval Non-PO Invoice Review Close Purchase Orders Open Purchase Order Review Review of A/P Batch Entries
SUBPROCESS **Employee Expense Report Preparation, Review and Approval:** Activities performed to review, approve and record employee expense reports		
What ensures employee expenses are valid business expenses and are authorized?	Existence/ Occurrence Completeness	Employee Expense Review
What ensures all employee expenses incurred during the period are identified and recorded?	Completeness Cutoff	
What ensures all employee expenses are coded accurately to the correct general ledger account?	Classification Accuracy	
SUBPROCESS **Accounts Payable Subledger Reconciliation:** Procedures performed to reconcile the A/P subledger to the general ledger		

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Risk Considerations	Financial Statement Assertions	Control Considerations*
What ensures accounts payable are recorded in the period when services/goods are received?	Completeness Accuracy Cutoff	Review of A/P Batch Entries A/P Account Reconciliation
What ensures the A/P subledger is reconciled to the general ledger on a timely basis?	Completeness Accuracy Cutoff Classification	A/P Account Reconciliation

Process: Cash Disbursement

Risk Considerations	Financial Statement Assertions	Control Considerations*
SUBPROCESS **Identification, Selection and Approval of Invoices to Pay:** Activities performed to identify invoices due, select invoices to be paid, and obtain management approval of the related disbursements		
What ensures that cash disbursements relate to valid and approved invoices?	Existence/ Occurrence	Check Register Reconciliation Disbursement Review
What ensures that the organization has sufficient funds to pay invoices?	Operational	Cash Requirements Review Cash Requirements Approval
SUBPROCESS **System Check Processing:** Activities performed to obtain check stock, print checks and reconcile the physical checks and/or Positive Pay upload file to the approved Check Pre-List Report and Check Register		
What ensures all cash disbursements, including system checks, manual checks, wire transfers and ACHs are initiated and approved by authorized individuals?	Existence/ Occurrence Completeness	Disbursement Review Cash Requirements Review Cash Requirements Approval Manual Check Review Positive Pay Exceptions Approval of Positive Pay Exceptions Approval of ACH/Wire Transfers Dual Approval for EFTs Wire Transfer Authorization
What ensures payments are only made to authorized vendors in good standing?	Existence/ Occurrence	Cash Requirements Review Cash Requirements Approval

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Risk Considerations	Financial Statement Assertions	Control Considerations*
SUBPROCESS **Check Collation and Approval:** Procedures performed to reconcile physical checks to approved invoices and to route the checks and supporting documentation for supervisory reviewed and approval for disbursement		
What ensures cash disbursement amounts are accurate and agree to the invoice and/or supporting documentation?	Existence/ Occurrence Completeness Accuracy	Check Register Reconciliation Disbursement Review Manual Check Review Approval of ACH/Wire Transfers Dual Approval for EFTs Wire Transfer Authorization
What ensures fictitious or duplicate postings of cash disbursements are not recorded?	Existence/ Occurrence	Check Register Reconciliation Disbursement Review Cash Requirements Approval Manual Check Review Positive Pay Exceptions Approval of Positive Pay Exceptions Approval of ACH/Wire Transfers Dual Approval for EFTs Wire Transfer Authorization
SUBPROCESS **Manual Check Preparation/Review:** Activities performed to prepare manual check requests and route requests with supporting documentation to supervisory personnel for review and approval before the check is drafted		
What ensures the safeguarding of assets?	Existence/ Occurrence	Check Stock Custody Dual Approval for EFTs

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Risk Considerations	Financial Statement Assertions	Control Considerations*
What ensures segregation of duties related to the approval of invoices and disbursement of funds?	Existence/ Occurrence	Check Register Reconciliation Disbursement Review Cash Requirements Approval Manual Check Review Approval of ACH/Wire Transfers Dual Approval for EFTs Wire Transfer Authorization Portal Access Review
What ensures disbursements are related to a legitimate and verified purchase or expense?	Existence/ Occurrence	Check Register Reconciliation Disbursement Review Cash Requirements Review Cash Requirements Approval Manual Check Review Positive Pay Exceptions Approval of Positive Pay Exceptions Approval of ACH/Wire Transfers Dual Approval for EFTs Wire Transfer Authorization
SUBPROCESS **Positive Pay Upload and Exception Approval:** Activities performed to upload the Positive Pay file to the bank website, resolve exceptions and validate that the file was uploaded completely and accurately		
What ensures cash disbursements recorded agree to amounts paid?	Accuracy	Check Register Reconciliation Disbursement Review Manual Check Review Positive Pay Exceptions Approval of Positive Pay Exceptions Approval of ACH/Wire Transfers Dual Approval for EFTs Wire Transfer Authorization

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Risk Considerations	Financial Statement Assertions	Control Considerations*
What ensures segregation of duties related to the approval of invoices and disbursement of funds?	Existence/ Occurrence	Check Register Reconciliation Disbursement Review Cash Requirements Approval Manual Check Review Approval of ACH/Wire Transfers Dual Approval for EFTs Wire Transfer Authorization Portal Access Review
What ensures the safeguarding of assets?	Existence/ Occurrence	Check Stock Custody Dual Approval for EFTs
SUBPROCESS **ACH Template Setup and Payment Processing:** Procedures performed to create and approve ACH templates within the banking website and to initiate and release ACH payments to vendors		
What ensures all cash disbursements, including system checks, manual checks, wire transfers and ACHs are initiated and approved by authorized individuals?	Existence/ Occurrence Completeness	Disbursement Review Cash Requirements Review Cash Requirements Approval Manual Check Review Positive Pay Exceptions Approval of Positive Pay Exceptions Approval of ACH/Wire Transfers Dual Approval for EFTs Wire Transfer Authorization
What ensures the safeguarding of assets?	Existence/ Occurrence	Check Stock Custody Dual Approval for EFTs

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Risk Considerations	Financial Statement Assertions	Control Considerations*
What ensures segregation of duties related to the approval of invoices and disbursement of funds?	Existence/ Occurrence	Check Register Reconciliation Disbursement Review Cash Requirements Approval Manual Check Review Approval of ACH/Wire Transfers Dual Approval for EFTs Wire Transfer Authorization Portal Access Review
What ensures fictitious or duplicate postings of cash disbursements are not recorded?	Existence/ Occurrence	Check Register Reconciliation Disbursement Review Cash Requirements Approval Manual Check Review Positive Pay Exceptions Approval of Positive Pay Exceptions Approval of ACH/Wire Transfers Dual Approval for EFTs Wire Transfer Authorization
What ensures cash disbursement amounts are accurate and agree to an invoice and/or supporting documentation?	Existence/ Occurrence Completeness Accuracy	Check Register Reconciliation Disbursement Review Manual Check Review Approval of ACH/Wire Transfers Dual Approval for EFTs Wire Transfer Authorization

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Risk Considerations	Financial Statement Assertions	Control Considerations*
What ensures disbursements are related to a legitimate and verified purchase or expense?	Existence/ Occurrence	Check Register Reconciliation Disbursement Review Cash Requirements Review Cash Requirements Approval Manual Check Review Positive Pay Exceptions Approval of Positive Pay Exceptions Approval of ACH/Wire Transfers Dual Approval for EFTs Wire Transfer Authorization
SUBPROCESS **Wire Transfer Initiation and Approval:** Activities performed to prepare wire transfer requests and to initiate, review and release wire transfers within the banking portal		
What ensures all cash disbursements, including system checks, manual checks, wire transfers and ACHs, are initiated and approved by authorized individuals?	Existence/ Occurrence Completeness	Disbursement Review Cash Requirements Review Cash Requirements Approval Manual Check Review Positive Pay Exceptions Approval of Positive Pay Exceptions Approval of ACH/Wire Transfers Dual Approval for EFTs Wire Transfer Authorization

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Risk Considerations	Financial Statement Assertions	Control Considerations*
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What ensures the safeguarding of assets?	Existence/ Occurrence	Check Stock Custody Dual Approval for EFTs
What ensures fictitious or duplicate postings of cash disbursements are not recorded?	Existence/ Occurrence	Check Register Reconciliation Disbursement Review Cash Requirements Approval Manual Check Review Positive Pay Exceptions Approval of Positive Pay Exceptions Approval of ACH/Wire Transfers Dual Approval for EFTs Wire Transfer Authorization

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Risk Considerations	Financial Statement Assertions	Control Considerations*
What ensures cash disbursement amounts are accurate and agree to the invoice and/or supporting documentation?	Existence/ Occurrence Completeness Accuracy	Check Register Reconciliation Disbursement Review Manual Check Review Approval of ACH/Wire Transfers Dual Approval for EFTs Wire Transfer Authorization
What ensures payments are made only to authorized vendors in good standing?	Existence/ Occurrence	Cash Requirements Review Cash Requirements Approval

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Financial Statement Assertions

In general the completeness and cutoff (for payables) and existence/occurrence (for expenses) are the most important management financial statement assertions for the Purchase to Pay cycle. When an organization records its payables and expenses by period-end, it is asserting that they are complete and accounted for in the right period. The organization is also implying that amounts paid are for legitimate purposes.

- **Existence/Occurrence:** All purchases have actually occurred and that vendors are valid. Accounts payable reflected in the balance sheet represent authentic obligations of the entity and include unprocessed invoices and liabilities for goods and services received but not billed.
- **Accuracy:** Accounts payable liabilities accurately reflect amounts owed for goods and services received and transactions are accurately coded to relevant accounts within the general ledger. Controls that ensure data goes into the sub-ledger accurately are significant to the operation of other controls within the environment.
- **Completeness:** Accounts payable reflected in the balance sheet represent authentic obligations of the entity and include all unprocessed invoices and liabilities for goods and services received but not billed.
- **Rights & Obligations:** The liabilities are obligations at the date of the balance sheet. There is a basis for recording liabilities that link to a current, relevant obligation of the reporting entity. There are no excess accruals that could be used to smooth expenses across periods.
- **Presentation & Disclosure:** Accounts payable are properly classified as current liabilities; significant debit balances are reclassified to other assets; and adequate disclosures are made for related-party accounts payable, payables with specified payment terms, and assets pledged as collateral on accounts payable.
- **Cutoff:** All expenses and associated liabilities at the balance sheet date are related to goods received and/or services rendered during the period as recorded. Management evaluates expense transaction near period ends to ensure they are recognized in the period to which they relate.
- **Classification & Understandability:** Expenses, liabilities and disbursement transactions are properly classified within the financial statements and all disclosures relating to them are presented in a clear and understandable fashion that represents the substance of transactions.
- **Operational:** The organization has implemented controls to manage a significant operational risk for which the financial management team is responsible. In the Purchase to Pay process, they address the organization's ability to manage availability of cash to fund operations.

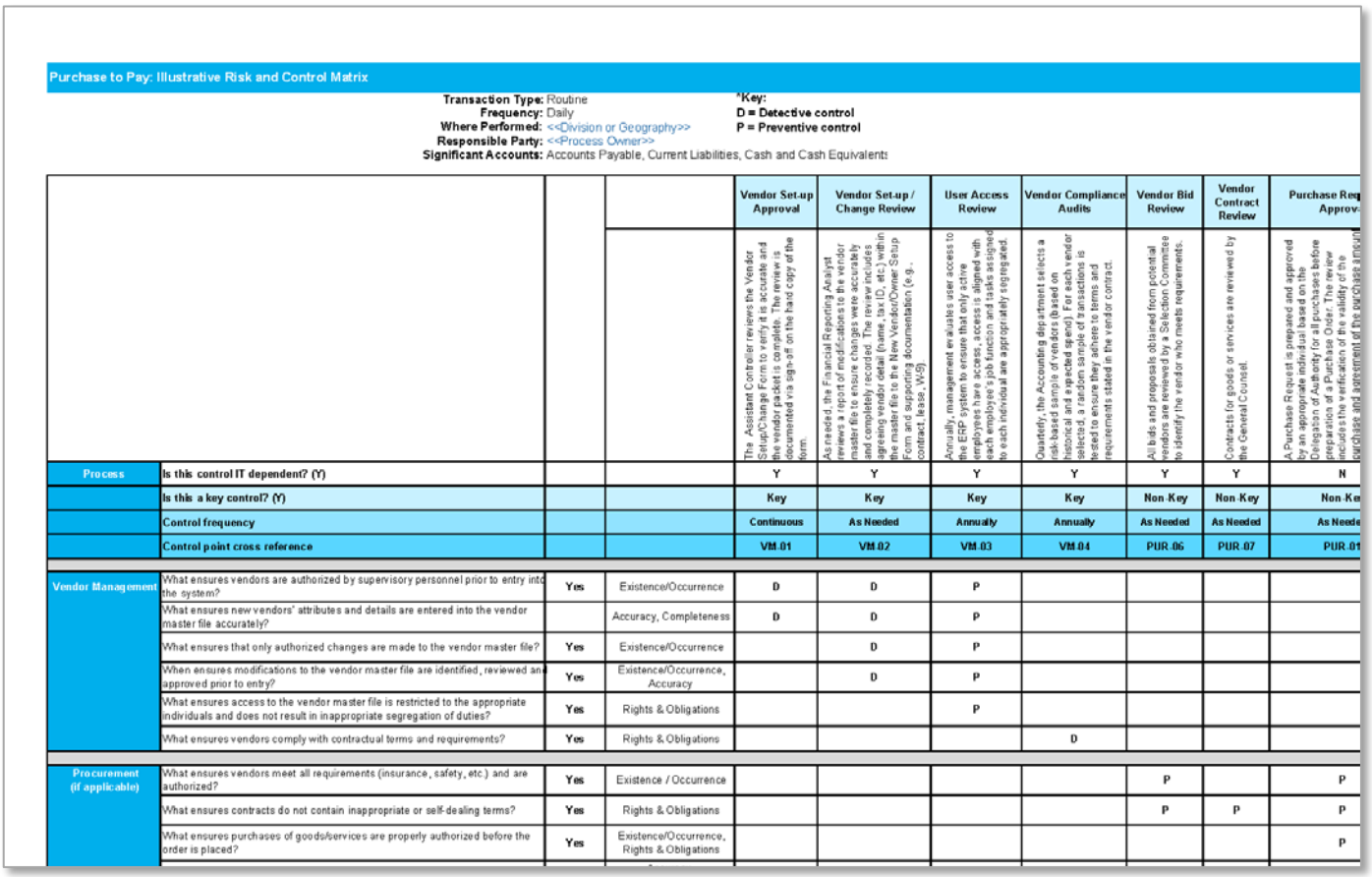
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Using the Risk-Control Matrix Template

You can download an illustrative Risk–Control Matrix for each cycle, built on the principles described in this guide, from Weaver's Executive Resource Center: https://weaver.com/executive-resource-center

Each matrix is pre-populated with the subprocesses, risks and controls detailed in this guide, making it easy for you to customize the document for your organization. The matrices address the most common subprocesses. Based on your specific operations, your organization will probably not have all these processes, and you may have others to add.

If you need assistance, Weaver is happy to help. Please consult the extensive materials posted at weaver.com, or contact us for a consultation.



Purchase to Pay: Illustrative Risk and Control Matrix

Transaction Type: Routine
Frequency: Daily
Where Performed: <<Division or Geography>>
Responsible Party: <<Process Owner>>
Significant Accounts: Accounts Payable, Current Liabilities, Cash and Cash Equivalents

*Key:
D = Detective control
P = Preventive control

				Vendor Set-up Approval	Vendor Set-up / Change Review	User Access Review	Vendor Compliance Audits	Vendor Bid Review	Vendor Contract Review	Purchase Req Approv
				The Assistant Controller reviews the Vendor Setup/Change Form to verify it is accurate and the vendor packet is complete. The review is documented via sign-off on the hard copy of the form.	As needed, the Financial Reporting Analyst reviews a report of modifications to the vendor master file to ensure changes were accurately and completely recorded. The review includes agreeing vendor detail (name, tax ID, etc.) within the master file to the New Vendor/Owner Setup Form and supporting documentation (e.g., contract, lease, W-9)	Annually, management evaluates user access to the ERP system to ensure that only active employees have access, access is aligned with each employee's job function and tasks assigned to each individual are appropriately segregated.	Quarterly, the Accounting department selects a risk-based sample of vendors (based on historical and transactional trends). For each vendor selected, a random sample of transactions is tested to ensure they adhere to terms and requirements stated in the vendor contract.	All bids and proposals obtained from potential vendors are reviewed by a Selection Committee to identify the vendor who meets requirements.	Contracts for goods or services are reviewed by the General Counsel.	A Purchase Request is prepared and approved by an approved dedicated individual before creation of a Purchase Order. The review includes the verification of the validity of the purchase and agreement of the purchase amount
Process	Is this control IT dependent? (Y)			Y	Y	Y	Y	Y	Y	N
	Is this a key control? (Y)			Key	Key	Key	Key	Non-Key	Non-Key	Non-Ke
	Control frequency			Continuous	As Needed	Annually	Annually	As Needed	As Needed	As Neede
	Control point cross reference			VM.01	VM.02	VM.03	VM.04	PUR.06	PUR.07	PUR.01
Vendor Management	What ensures vendors are authorized by supervisory personnel prior to entry into the system?	Yes	Existence/Occurrence	D	D	P				
	What ensures new vendors' attributes and details are entered into the vendor master file accurately?		Accuracy, Completeness	D	D	P				
	What ensures that only authorized changes are made to the vendor master file?	Yes	Existence/Occurrence		D	P				
	When ensures modifications to the vendor master file are identified, reviewed and approved prior to entry?	Yes	Existence/Occurrence, Accuracy		D	P				
	What ensures access to the vendor master file is restricted to the appropriate individuals and does not result in inappropriate segregation of duties?	Yes	Rights & Obligations			P				
	What ensures vendors comply with contractual terms and requirements?	Yes	Rights & Obligations				D			
Procurement (if applicable)	What ensures vendors meet all requirements (insurance, safety, etc.) and are authorized?	Yes	Existence / Occurrence					P		P
	What ensures contracts do not contain inappropriate or self-dealing terms?	Yes	Rights & Obligations					P	P	P
	What ensures purchases of goods/services are properly authorized before the order is placed?	Yes	Existence/Occurrence, Rights & Obligations							P

Illustrative Risk–Control Matrix