

Internal Audit Report

Vendor Invoice Payments

Report Rating	Unsatisfactory
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Observations Summary		
High	Medium	Low
5	1	-

Executive Summary

BACKGROUND

The Finance Departments' Accounts Payable Unit manages vendor payments at GG. The aim of the vendor payment process is to distribute funds to suppliers for the goods and services which they have supplied. Payments are processed using a real-time electronic fund transfer system through the bank's Business-to-Business (B2B) payment application. The B2B payment application is integrated with GG's procure to pay (P2P) system called "Fusion Business Solution." This process is fully digitized, eliminating the need for physical documentation and approvals.

SCOPE AND APPROACH

This audit assessed the design and operating effectiveness of the vendor payment execution controls, including:

- Receipt and Verification of invoices;
- Creation of payment request forms;
- Approval and Authorization of payment requests; and
- Management reporting.

Payments related to investment i.e. money market transactions, acquisitions (private equity and listed stocks), internal funds transferred follow a different process and hence excluded from the scope of this audit.

CONCLUSION

Overall, the Internal Audit report rates controls around vendor payment processes as **"Unsatisfactory"**. The internal audit rating is primarily driven from inappropriate design of key internal controls within Fusion business solution, weakness around review and approval of

payment request forms, significant reliance of individuals and lack of appropriate monitoring of invoices.

This audit Identified five High and one Medium rated observations, which are summarized below:

I. Inappropriate Preventive Controls on Invoice Generation:

The preventive controls for invoice accuracy in Fusion Business solution are inadequate and causing errors in vendor payments. Such as:

- The vendor bank information is editable and not tied to registration data, leading to payments to unregistered accounts.
- The invoice amount field is unrestricted, allowing invoices to be raised higher than the PO amount and increasing manual verification.
- The GSRN is not set as a requirement for invoice generation, creating inefficiencies and dependence on AP employees for verification.

II. Exchange rate conversion:

The integration of Fusion Business Solution with the central bank's exchange rate portal (for capturing exchange rates accurately when converting invoice amounts into Saudi Riyal) is not properly configured. Consequently, this leads to significant errors in the Vendors' payments.

III. Excessive user access and Breach in Delegation of Authorities:

- The review controls within the Fusion Business Solution are not configured appropriately, permitting individuals in the AP team to circumvent segregation of duties controls set up in the Vendor payment policy and procedure. This potentially exposes GG to the risk of errors in invoice verification without detection. This control weakness stems in from the

Executive Summary

lack of defined policy and procedures for Fusion business solution user access management.

- Although the payment approval delegation of authority is correctly set up in Fusion business solution, some breaches were observed. Invoices were divided into multiple payment request forms to evade the need for a higher delegation to be authorized.

Weak monitoring of invoice aging:

The invoice aging analysis prepared by AP and submitted to the CFO is lacking the details of individual invoices. In addition, the invoice aging calculation uses the date of creation on the payment request form, rather than the payment terms on the PO, which require payment to be made within 21 days from the date of the invoice. This misalignment between PO payment terms and Vendor payment Policy creates a gap in the process exposing GG to the risk of additional interest charges.

The absence of adequate reviews by senior management personnel increases the risks associated with the audit observations mentioned earlier. This is due to the high level of trust placed in subordinates, which undermines oversight controls and weakens the control environment around the vendor payment process.

MANAGEMENT RESPONSE

Management has agreed to all observations raised in this report and actions plans to remediate risks have been developed with agreed target dates.

Observation Summary

Opportunities to enhance the existing processes and improve the control environment are summarized below. The next section contains further details of these observations.

No.	Title	Summary	Rating	Target Date
1	Preventive Controls on Invoice Generation	The preventive control on invoice generation is not appropriately designed to reduce the risk of errors.	High	30 June 2023
2	Exchange rate conversion of Invoices	Fusion business solution is not accurately capturing the currency exchange rates for conversion of invoice amounts to Saudi Riyals from central bank portal.	High	31 March 2023
3	Delegation of Authorities breaches	Invoices were divided into multiple payment request forms to evade the need for a higher delegation to be authorized.	High	30 June 2023
4	Excessive User Privileges	"Maker/checker" controls are not appropriately configured in Fusion Business Solution as such; individuals within AP team can bypass segregation of duties controls as established in the Vendor payment policy and procedures.	High	31 March 2023
5	Inappropriate Review of Payment Request Forms	Due to the high level of trust that senior management has in their subordinates, the payment request form does not undergo appropriate reviews.	High	31 March 2023
6	Monitoring of Invoices	The invoice aging analysis submitted to the CFO by AP lacks individual invoice details. Moreover, the invoice aging calculation relies on the date of creation mentioned on the payment request form instead of payment terms in the PO	Medium	31 March 2023

On the subsequent pages, each detailed observation is categorized by the observation type and the control topic. Further details of this categorization is summarized in appendices IV and V

Detailed Observations

1. Preventive Controls on Invoice Generation

High

Observation

The Preventive system controls to ensure accuracy of the invoices are not comprehensively designed and lack the following:

- The Vendor Bank name and IBAN is editable and not linked to vendor registration data. While vendor login controls are correctly set up to minimize fraudulent invoice generation, errors in vendor bank data can occur.
- The invoice amount field is unrestricted, even though a vendor can select the PO number from a dropdown list registered under their name. As a result, invoices can be raised for an amount higher than the PO, leading to unnecessary, manual invoice verification work.
- The GSRN is not configured as a requirement for invoice generation and creates inefficiencies and dependence on AP employees for verification.

Internal audit testing of a randomly selected sample of 25 invoices identified significant operating effectiveness issues (Errors) in invoice accuracy/verification. See below:

Issue	No. of Instances	Sample Size	%age of sample errors	Misstatement (if any)	Total Amount of Invoices in SAR	Percentage of operational loss
Invoice Amount more than the Total PO amount	1	25	4.0%	120,000	194,451,691	0.06%
Payment made against Draft PO	3	25	12%	7,227,454	194,451,691	3.72%
System is not picking up correct currency and exchange rate	6	25	24.0%	46,777,833	194,451,691	24.1%
Bank details on invoice does not match registered vendor bank details	1	25	4.0%	18,002,880	194,451,691	9.3%

Risk

Errors in invoices requires extra manual verification and leads to a decline in operational efficiencies, it can further result in the loss of profitability and financial resources in the form of penalties and interest charges. Moreover, it may damage the vendor relationships and harm the reputation of the company.

Detailed Observations

Recommendations

1. Configure fusion business solution to link vendor registration records with the payment bank account details and prohibit editable vendor payment information such as bank account numbers to maintain data accuracy.
2. Set up a restriction in the invoice amount field by correlating it with the PO amount to avoid invoicing for more than the PO amount. Implement automatic notification protocols that alert vendors and internal teams when discrepancies occur.
3. Develop a policy that makes GSRN a mandatory requirement for invoice generation and automate GSRN retrieval instead of relying solely on AP employees.

Owner: Mohammad Aza, Chief Financial Officer

Completion Date: 30 June 2023.

Detailed Observations

2.	Exchange rate conversion of Invoices	High														
Observation																
Fusion Business Solution is not suitably configured with the central bank exchange rate portal, causing it to pick up incorrect exchange rates for converting invoice amount to Saudi riyals.																
Internal audit testing of a randomly selected sample of 25 invoices identified below:																
<table><tr><th>Issue</th><th>No. of Instances</th><th>Sample Size</th><th>%age of sample errors</th><th>Misstatement (if any)</th><th>Total Amount of Invoices in SAR</th><th>Percentage of operational loss</th></tr><tr><td>System is not picking up correct currency and exchange rate</td><td>6</td><td>25</td><td>24.0%</td><td>46,777,833</td><td>194,451,691</td><td>24.1%</td></tr></table>			Issue	No. of Instances	Sample Size	%age of sample errors	Misstatement (if any)	Total Amount of Invoices in SAR	Percentage of operational loss	System is not picking up correct currency and exchange rate	6	25	24.0%	46,777,833	194,451,691	24.1%
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System is not picking up correct currency and exchange rate	6	25	24.0%	46,777,833	194,451,691	24.1%										
Risk																
Picking up incorrect exchange rates for converting invoice amounts to Saudi Riyals results in over or underpayment of vendors, and potentially leading to financial loss																
Recommendations																
<div>1. Evaluate and update the integration between Fusion Business Solution and the central bank's exchange rate portal to ensure its accuracy.</div> <div>2. Periodically review the integration between Fusion Business Solution and the central bank's exchange rate portal to ensure it is being appropriately configured.</div>																
Owner: Mohammad Aza , Chief Financial Officer																
Completion Date: 31 March 2023.																

Detailed Observations

3.	Delegation of Authorities breaches	High			
Observation					
Despite the correct setup of payment approval delegation of authority in Fusion business solution, some invoices were split into several payment request forms in order to circumvent the requirement for authorization from a higher delegation.					
Internal audit identified the following:					
Payments for two invoices (numbers 31405676 and 94933255) amounting to SAR 25m and SAR 9.9m were split into three and two installments, see below:					
Invoice no.	Amount	Payment Voucher No.	Payments Made	Approved by	Required Approval
31405676	25,408,238	251282122	8,469,412.5	Chief Operating Officer	Chief Executive Officer
31405676	25,408,238	807300240	8,469,412.5	Chief Operating Officer	Chief Executive Officer
31405676	25,408,238	803340240	8,469,412.5	Chief Operating Officer	Chief Executive Officer
94933255	9,913,864	348969921	4,956,932	Head of Procurement	Chief Operating Officer
94933255	9,913,864	350069921	4,956,932	Head of Procurement	Chief Operating Officer
Risk					
Unauthorized individuals approving payments could result in financial loss or fraudulent activity. It can also undermine the internal control and compliance system of the organization, and potentially damage its reputation.					
Recommendations					
1. Conduct a comprehensive audit to identify any fraudulent activities and determine their extent.					
2. Launch measures such as verifying the authority of individuals, especially for larger payments, and creating a rigorous authorization process to safeguard against the potential for unauthorized approval.					

Detailed Observations

3. Reinforce policies promoting transparency, accountability, and compliance among the staff and engage them in training sessions to prevent activities that could undermine the financial stability and reputation of the organization.

Owner: Mohammad Aza, Chief Financial Officer

Completion Date: 30 June 2023.

Detailed Observations

4.	Excessive User Privileges	High
Observation		
Despite the specific roles and responsibilities outlined in the Vendor policy and procedure document to ensure proper segregation of duties and review processes, they have not been configured in the Fusion Business solution. Internal Audit Identified below conflicting roles within Fusion Business Solution:		
Issues	Conflict	
2 Users have AP officer and AP Supervisor Privileges	The review process is being undermined since users possessing AP Officer and AP Supervisor privileges can create and approve payment requests on their own, without undergoing the required review process.	
2 Users have AP officer, AP Supervisor and Admin Privileges	Users who have the combined privileges of AP Officer, AP Supervisor, and admin user can <u>create</u> and <u>review</u> payment requests without undergoing the required review process, which undermines the effectiveness of the review process. Additionally, they can modify the user access rights of other users, bypassing controls.	
2 Users have AP officer, AP Supervisor, Authorizer, and Admin Privileges	Users with AP Officer, AP Supervisor, Admin, and Authorizer user privileges can directly <u>create</u> , <u>review</u> , and <u>approve</u> payment requests, which undermines the review process. Additionally, they can modify the user access rights of other users, allowing them to bypass controls.	
9 Users can modify invoice	Users can modify the invoice and due to weak controls over vendor bank account field in the invoice the risk of fraud is elevated. Further, this is vendor policy non-compliance.	
Additionally, there are no guidelines for user access management in the vendor payment policy and procedures document.		
Risk		
Inappropriate segregation of duties and insufficient oversight enhance the likelihood of fraudulent activities and errors remaining undetected damaging organization's public image, result in financial loss, and legal penalties. Furthermore, non-compliance with policy guidelines can create an environment where fraudulent activity can occur without any hindrance.		
Recommendations		
1. Re-Configure the roles and responsibilities in the Fusion Business solution to align with the Vendor policy and procedure and immediately revoke excessive user privileges.		
2. Develop and implement a policy for user access management for Fusion business solution.		
Owner: Mohammad Aza, Chief Financial Officer		
Completion Date: 31 March 2023.		

Detailed Observations

5.	Inappropriate Review of Payment Request Forms	High
Observation		
<p>The reliance and trust of senior management personnel in their subordinates have led to an inadequate review and approval process of payment request forms, resulting in the internal audit detecting various erroneous invoice payments made without detection.</p> <p>Multiple errors in the sample of 25 invoice payments were identified, highlighting the lack of an appropriate review and approval process. These errors can be categorized into the following themes:</p> <ul style="list-style-type: none">I. Inaccurate invoice amountsII. Misalignment with Purchase Orders (POs)III. Errors in vendor bank account detailsIV. Absence of proper segregation of dutiesV. Breach of delegation of authorities		
Risk		
<p>The absence of proper segregation of duties and reviews can create an environment where fraudulent activities can thrive. Lack of proper review and controls can ultimately lead to internal control weaknesses and non-compliance with regulatory and statutory guidelines.</p>		
Recommendations		
<p>Regularly monitor and report the review and approval process of payment request forms, including any detected irregularities, discrepancies, and areas of improvement to the Board members.</p> <p>Owner: Mohammad Aza , Chief Financial Officer</p> <p>Completion Date: 31 March 2023.</p>		

Detailed Observations

5.	Monitoring of Invoices	Medium
Observation		
<p>The current invoice aging report does not provide CFO with specific information regarding delayed invoices. Additionally, there is a misalignment between the payment terms on the purchase order and the vendor payment policy that results in aging being calculated from the payment request form's creation date, rather than the invoice date set forth in the PO payment terms.</p> <p>Internal audit performed a data analysis on invoices received in 2022 and identified that out of total 278 invoices, 137 (49%) invoices were paid after 21 day from invoice creation. See aging analysis below:</p>		
62	0-10 Days	22%
79	11-21 Days	28%
54	22-30 Days	19%
46	31-40 Days	17%
35	41-50 Days	13%
2	50+ Days	1%
Risk		
Missed payment deadlines, late fees, and even damage to the organization's creditworthiness and reputation.		
Recommendations		
<p>Revise the design of the report to bring specific invoice related details and revise the payment policy for its alignment with the PO payment terms.</p> <p>Owner: Mohammad Aza , Chief Financial Officer</p> <p>Completion Date: 31 March 2023.</p>		

Appendices

Appendix I: Rating Definitions

Audit Observation Rating Definition - Rated at the PIF-level, by considering the impact of the risk on PIF's strategic objectives.

High	A weakness that can significantly compromise internal control and/or its operational effectiveness. The agreed management action plan must be implemented with prioritisation and focus.
Medium	A weakness that can undermine the system of internal control and/or its operational effectiveness. The agreed management action plan is to be implemented.
Low	A weakness which does not seriously detract from the system of internal control and/or its operational effectiveness, but nevertheless should be addressed by management in accordance with the agreed action plan.

Audit Report Rating Definition – Control Based Opinion - Rated at the scope-level, considering the risk to the objectives of the relevant area or process under review.

Unsatisfactory	There are multiple high rated observations that in likely scenarios could in aggregate expose the business to critical levels of risk which may result in a material financial, reputation, operational, market or compliance impact.
Needs Significant Improvement	There are high or multiple medium rated observations that in likely scenarios could in aggregate expose the business to high levels of risk which may result in a significant financial, reputation, operational, market or compliance impact.
Needs Improvement	There are medium or multiple low rated observations that in likely scenarios could in aggregate expose the business to moderate levels of risk which may result in a moderate financial, reputation, operational, market or compliance impact.
Satisfactory	There are no observations or few low rated observations that in likely scenarios only expose the business to low levels of risk and are more in the nature of a procedural improvement than of a control weakness that would have a financial, reputation, operational, market or compliance impact.