Verbiage to AI:

1. Create Questions Dynamically to collect information required to populate this template.
2. Sections that starts with the word "instruction" gives you the instruction and explanation on the nature and type of content.
3. Sections that starts with the word examples are examples of content that needs to be gathered through dynamic questions and populated.
4. Words within inverted commas are labels and are to be replaced with the information gathered.
5. Place holders in a table needs to be populated from information gathered.
6. Here are the links to sources that needs to be used for building out this narrative and questionnaire

Sarbanes – Oxley (Section 404) Documentation

2. PROCUREMENT TO PAY CYCLE

1/17/2025

Process Document

NATURE OF ACTIVITY

Business As Usual	Exception	Interim

MATERIALITY

General Account	Account Description	Annual Amount

RISK ASSESSMENT

Low	Medium	High

VERSION CONTROL

#	Date	Description of Change	Revised By	#	Date	Description of Change	Revised By

PROCESS SECTIONS

I. CONTEXT

> **Process Owner**
> **Process Objective**
> **Scope**
> **Description of Impacted General and Subledger Accounts**

II. POLICIES

> **Policies**
> **Authorization**

III. PROCEDURES AND CONTROL ACTIVITIES

> **Procedure and Controls**
> **Internal Forms and Reports**

IV. RISK ASSESSMENT

> **Risks, Mitigating Controls and Compensating Controls**
> **Segregation of Duties**

V. RECOMMENDATIONS

CONTEXT

Process Owner

The key process owner is:

➢ Instruction: The functional or business unit head who is responsible to ensure that the Procurement to Pay Process (P2P), as executed, incorporates the documented controls. The organization hierarchy information should be added here that includes Head of Procurement, title and the next level leader title. If Procurement to Pay Process (P2P) area responsibility is split between higher level leaders, they should be mentioned here as well.

Other process owners: Instruction: To list titles of key stakeholders, name of roles and teams transacting within P2P area. See example below:

➢ This role is responsible for initiating purchase requisitions (PR). Instruction: list all the roles and titles of employees responsible for initiating PR. Also, list type of procurement in detail such as indirect procurement, direct procurement, sub section of procurement types. Also, include the next level manager title and role.

➢ This role is responsible for creating purchase orders from the approved purchase requisitions. This role reports to the Senior Director Operations.

➢ The Material Control Supervisor (MCS) helps to oversee the receiving process. The MCS reports to the Manager Operations.

➢ The Accounts Payable Specialist (AP) is responsible for 3-way matching. The AP reports to the Associate Director Operations.

Process Objective

To document the policies and procedures over "Region, Type of Purchases and Services" and assess the risks and controls associated with this process.

Scope

This procedure applies to "Functional area, name of the department, name of the company".

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Description of Impacted General and Subledger Accounts. See Example below

Account Number	Revenue/Expense/Asset/Liabilities	Name of the Account
221001	Asset	Goods Received Account
222002	Inventory - Expense	Direct Materials
223003	Liability	A/P- Direct
441001	Expense	Indirect Materials
441002	Liability	A/P indirect
441003	Asset	Bank Account

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POLICIES AND DOCUMENTATION

INSTRUCTION: LIST ALL THE RELEVANT POLICIES IMPACTING THE PROCESS AREA. SEE EXAMPLE BELOW

		Name and Link	Owner
1.0	Purchasing Policy		
2.0	Receiving Policy		
3.0	Purchase Return Policy		
4.0	Purchase Requisition Policy		
5.0	Sales Tax + Excise + VAT Tax Policy		
6.0	Authorization and Approval Policy		

III . REFERENCE TO PARENT, CHILD AND CONNECTED NARRATIVES SEE EXAMPLE BELOW

		Name and Link	Owner
1.0	Inventory Pricing upload Process		
2.0	Contract to Purchase Order integration Process		
3.0	Tax amount calculation process		
4.0	Inventory module to Purchase Order integration		

5.0	GL Account Mapping Process		
6.0	Material Group and Material Code Setting Process		

PROCESS PROCEDURES AND CONTROL ACTIVITIES

	PROCEDURE AND CONTROL NARRATIVE. INSTRUCTION: DESCRIBE IN DETAILS STEP BY STEP PROCESS. EXAMPLES FOR REFERENCE RELATING TO PROCESS STEPS ARE PROVIDED BELOW.	Internal Controls. Instruction: Map controls on the left with COSO Assertions such as Existence, Completeness, Valuation, Rights & obligation, Custody, Authorization, Accuracy
1.0	*Purchasing*	
1.1	"NAME OF COMPANY" purchases inventory "items" from many vendors including Chartered, "Vendor Name"	
1.2	Example: P2P dashboards with data on Budget, PR, PO, Inventory, AP, Preferred Vendor Purchases	
1.3	Example: Overview of the process	
1.4	Example: List of major modules, Systems used, data flow across systems	
1.5	Example: Describe PR fields 1) Quantity 2) Material Code 3) Unit price 4) Total price 5) Total price of order.	
1.6	Example: Vendor selection process, Sourcing Process, PR Creation Process	
1.7	Example: Approval Process	
1.8	Example: Receiving process	
1.9	Example: Approval Delegation Process	
1.10	Example: Approval exception process	
1.11	Example: Authorization Process	

1.12	Example: 3-way match process	
1.13	Example: Data entry process	
1.14	Example: 1. List of fields manually entered, 2. Fields populated by system 3. End to end workflow from creation from PR, Creation of PO, PO approval, PO transmission, Receiving, Invoicing and Payments	
1.15	Example: Access level by access type for each role mentioned under context	
1.16	Example on process step on how PO is created. The PO module automatically creates purchase order numbers. Therefore, this prevents any duplication of purchase order #'s. The only entering that Purchasing does is to enter in the "first two" numbers on the PO based on what type of purchase the order is: 1) "10"- Non-inventory purchase 2) "20"- Raw material purchase 3) "30"- Finished Goods purchase 4) "40"- Manufacturing related supplies purchase 5) "50"- Non Capital Equipment purchase 6) "70"- Indirect materials	

1.17	Example: Purchase order fields include the following	
	Material Group: "Definition" (Automated based on supplier and description)	
	Material Code: "Definition" (Automated based on supplier and description)	
	General Ledger Account (Automated based on supplier and description)	
	Cost Center (Automated based on employee department or cost center and above fields description)	
	Contract # Contract Amount (integrated with Contract Module)	
	PO Amount (Calculated)	
	UOM (Populated based on price database)	
	Quantity (Entered manually or integrated with Inventory module)	
	Tax (Automated based on shipping address, GL, Material Code)	
	Payment term	
1.18	Example: Terms for the purchase orders Example: are FOB shipping point.	
1.19	Instruction: Describe Approval Flow of Purchase Requisition and Purchase Order	**Authorization**
1.20	Example: The purchase order is then sent to the vendor. Instruction: Describe the method of transmission od approved purchase order to the vendor, acknowledgement from the vendor	
1.21	Instruction: Describe Review process of Purchase Requisition, Purchase Order, Open Purchase Order Report, Contract and Purchase Order reconciliation	**Existence, Completeness, Accuracy**
1.22	Instruction: Describe Purchase Change order process including request, approval and transmission to the vendor	
2.0	**Receiving**	
2.1	Instruction: How when how where are the items received. How are recorded	
2.2	Example: Electronic Receiving	

2.3	Example: The warehouse clerk, who is located in "location name" prints out the packing slip from the "shipping memo" and generates a receiver in the receiving module and warehouse clerk enters in the quantity noted on the packing slip. The warehouse manager matches the PO# and item # from the packing slip to the open purchase order in the inventory module	*Existence, Completeness, Valuation/Validity, SOD*
2.4	Instruction: Describe process If the quantity per the packing slip is less than the open PO amount, If the quantity per the packing slip is more than the open PO amount, Describe tolerance level.	
2.5	Instruction: Describe the process if PO, Packing slip and Physical items do not match	*Existence, Completeness, Valuation/Validity, SOD*
2.6	Instruction: Describe process of documentation, filing documentary evidences such as packing slips and how the same is retrieved by Accounts Payable and how items are delivered to shop floor/office floor/ employee receiving for consumption or usage.	
2.7	Instruction: Describe security and safeguarding if items internally transported	
2.8	Instruction: Describe process of monitoring of receiving.	
2.9	Instruction: Describe the process of identifying and managing discrepancy	
2.10	Instruction: Describe frequency and method of inventory count and inventory reconciliation	*E,C,V*
2.11	Instruction: describe weekly, monthly and quarterly monitoring activities.	
3.0	**Accounts Payable**	
3.1	Instruction: How where who receives the invoices. How are they recorded. How are the posted? How are they validated	
3.2	Instruction: How who performs the 3-way match? How is it evidenced	**C,V**
3.3	Example: AP will then enter the following information from the invoice into system: 1) Invoice date 2) Purchase Order # 3) Invoice # 4) Invoice Amount. Duplicate invoices are prohibited by the system.	*E*
3.4	Example: After entering in this information, AP will match the invoice against the receiver in the system by line item. Note: AP cannot enter invoices that have not been received into the system. Instruction: Describe how the situation of how invoices without receiver is handled?	**E,C,V**

3.5	Instruction: Explain the activities performed by AP for validation of data and preparation of payments. Explain Invoice approval process	*C,V*
3.6	Instruction: Explain the process how approved invoices get recorded in the system. Example: Dr. Account #20000 Purchases Clearing Cr. Account #21100 AP- Trade <u>Note</u>: When the goods were originally received into Baan (Procedure 2.3), the automatic entry was Dr. Account #16000 Inventory Cr. Account #20000 Purchases Clearing Instruction: Explain the process of identifying defining and recording material price variance, price variance, quantity variance	
3.7	Instruction: Explain the access restriction of AP team. How are invoices accurately recorded? Steps taken to ensure that AP does not edit the receiving or the PO data	*E,C,V*
3.8	Instruction: Explain the exception process of approval for mis matches in PO – Invoice – Receiving	
3.9	Instruction: Explain the process of monthly and yearly accrual process, in-transit invoices, purchase order, in-transit items, inventory count variances.	*C,V*
3.10	Instruction: Explain touchpoints with vendors such as Vendors would complain to Accounts Payable about overdue invoices, Invoices with incorrect tax amount, incorrect discount.	*E,C*
3.11	Instruction: Explain and list all the reports that are generated and reconciled to ensure accurate recording of inventory, purchase order balance, invoice posted and paid, variances, accruals, discount lost, overdue invoices	*E,C*
3.12	Instruction: Briefly touch upon Cash Disbursement and make a reference to the cash disbursement narrative	
3.13	**<u>Returns</u>**	
3.14	Instruction: Explain how why when and who processes and records returns	
3.15	Instruction: Explain the process of physical return of items	*E*
3.16	Instruction: Explain accounting entries of returns and recording of returns	
3.17	Instruction: Explain re-ordering	
3.18	Instruction: Explain the process of reconciliation of returns, reordering, cancellation and physical shipping out of goods	*E,C*
3.19	Example: The purchasing agent requests the Return number. No items are returned without the Material Return Number	

3.20	Example: Once the Material Return Number is received, Purchasing issues a negative PO in the system which debits the vendor's account and credits inventory. The negative PO serves as an internal debit memo and will be matched with the vendor credit memo.	*E, C,V*
3.21	Example: AP pays only the net of debit memo. The debit memo is matched with credit memo when received from the vendor	
3.22	Example: At least quarterly, the AP supervisor reviews outstanding debit memos in each supplier's account to ensure that the credit memos are being issued in a timely manner.	*E,C,V*
3.23	Instruction: Describe the process of reconciling debt memo with credit memo and ship out documents.	*E, V*
3.24	Instruction: Describe the steps where vendor does not want the items returned. Instead they are scrapped. Debit memo is cleared with Material Scrap Document number.	
3.25	Instruction: Describe in detail the reconciliation process of debit memo, credit memo, ship out document and scrap document	
3.26	Instruction: Explain the process of identifying, counting and recording shrinkage and breakage.	*R*
4.0	**Purchase Price Variance/Revision of standards for "items"**	
4.1	Instruction: Purchase price variance (PPV) occurs, when "items" are received into system and there is a difference between the standard cost in the system and the PO unit price. For example, if the PO unit cost of a wafer was $800 and the standard cost was $1,000, the following entry would be made automatically upon receipt in Baan: Dr. Account #16000 Inventory $1,000 Cr. Account #50000 Standard Cost PPV $200 Cr. Account #20000 Purchases Clearing $800	
4.2	Example: On a monthly basis, the analytics team run a report that compares standard cost vs PO cost for purchases during that month.	
4.3	Example: To ensure accuracy, the Accountant will reconcile the PPV from the report to G/L account #50000 (COGS-Standard Cost Variance). The reconciliation report is signed and dated by the Accountant as evidence of accuracy and completeness. The CC reviews the report for reasonableness and dates and signs the report as evidence of such review.	*C,V*
4.4	Example: The production clerk will convert purchases of items for the month into FG equivalent quantity based on expected yield.	
4.5	Instruction: Describe the process of reconciliation of inventory count of material purchase to the finished good using the conversion rate and physical inventory of finished goods.	
4.6	Instruction: Describe the process of identifying, reviewing, reconciling finished goods on hand vs. calculated finished goods described in 4.5 section above.	

5.0	Instruction: Describe any other process steps under standard procure to pay process and processes specific to the company	
6.0	Instruction: Describe process steps on what accounts in Procure to pay process is reflected in 10Q, 10K and Financial statement disclosures.	*P*

RISK ASSESSMENT

Risks and Mitigating Controls

Instruction: List Risks in the area of Procure to Pay cycle relevant and specific to the narrative above under each of the COSO assertions. For each risk identified, identify the activity in the narrative above which is a control activity for the identified risk. In the below populate the reference from the narrative. Use the definition of risk, control activity and key control under Sarbanes Oxley act to populate the table below. Example of possible risks in the question format are listed below under each of the assertions. Label references for key control and controls. The assertion identified on the narrative should match the assertion on the table below.

Risks *(What controls are in place to ensure)*	Controls	System (S) **Manual (M)**	Prevent (P) Detect (D)	Procedures Reference	Key Control (K)	Controls Number Ref.
A) Existence or occurrence:						
1) What ensures that fictitious/duplicate purchase orders are not recorded or paid for?						
2) What ensures that inventory at the storage exists?						
3) What ensures that fictitious debit memos are not generated?						
4) What ensures that returns to the vendor are valid?						
5) What ensures that credit is received for returns to the vendor?						
B) Completeness:						
1) What ensures that purchases are correctly recorded?						

Risks *(What controls are in place to ensure)*	Controls	System (S) **Manual (M)**	Prevent (P) Detect (D)	Procedures Reference	Key Control (K)	Controls Number Ref.
2) What ensures that purchases are recorded in the proper period?						
3) What ensures purchases are correctly coded?						
4) What ensures that product returns are recorded?						
C) Valuation or measurement:						
1) What ensures that vendor invoices reflect the correct prices and quantities?						
2) What ensures that standard costs are properly applied, updated and computed?						
3) What ensures that quantity of goods received is in accordance with the PO?						
4) What ensures that product return to vendor credits are for the correct quantity and cost?						
D) Rights and Obligations:						
1) What ensure Liabilities accounts for Accrued liabilities recorded	.					
E) Presentation & Disclosures:						

Segregation of duties: Instruction: USE definition of segregation of duties and definition OF INITIATE, authorize, custody, recording & reconcile to populate the table below with respective titles. Identify the activities under initiate, authorize, record and reconcile under procure to pay narrative above that feeds into 10k or 10q and then cross reference with the control ac

Examples:	Initiate	Authorization	Custody of assets	Recording	Reconciliation	Control activity
Issues Purchase requisitions						
Approves purchase requisitions						
Issues Purchase Orders						

Approves access to vendor files					
Approves purchase orders					
Receives goods					
Matches invoices to receiving reports					
Reconciles AP to GL					

Segregation of Duties CONCLUSION: Instruction: based on best practice of Segregation of duties, identify conflicts if any and recommend controls in the recommendation section with cross reference. If no conflicts conclude the evaluation as no issues identified

Recommendations: Instruction: Under each of the main Process sections above such as purchases, Receiving identify risks that are not addressed by controls including key controls and SOD. Add recommended controls to satisfy the risk or site the compensating controls

Risk Mitigation Recommendation/ compensating controls		Process Owner	Accepted: Yes/ No If yes, Date to Implement. If no, then either cite compensating control or acceptance of risk	Compensating control or Action plan or N/A	Risk Accepted Yes/No. Yes if no compensating control and recommendation not accepted.
1.0	**Receiving**				
1.1	The purchase price variance is adjusted using an entry. There is no acceptable tolerance limit set for the variance. Recommendation: Review the variance amount and determine a reasonable tolerance limit and require sign off by Senior Manager to for adjustments over the set limit				