



## **2024 ANNUAL SASFF CONFERENCE AND 3 RD AGM**

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- "Internal Controls within the Student Finance Environment with emphasis on best Practices".

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# INTERNAL CONTROLS

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**Internal controls are all of the policies and procedures management uses to achieve the following:**

- Protect assets (students receivables)
- Ensure records are accurate and reliable
- Promote operational efficiency and effectiveness
- Compliance with policies, rules, and laws
- Accomplishment of goals and objectives

## RESPONSIBILITIES:

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The University Council are responsible for the general governance and administration of the University. They are charged with issuing policies that govern the University which are the basis of the internal control system.

# RESPONSIBILITIES, CONT'D:

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- **Management:** Administrative management is responsible for maintaining an adequate system of internal control. Management is responsible for communicating the expectations and duties of staff as part of a control environment. They are also responsible for assuring that the other major areas of an internal control framework are addressed. These responsibilities should reflect the appropriate authority and accountability.
- **Staff:** Staff and operating personnel are responsible for carrying out the internal control activities set forth by management.



# EVERYONE IS RESPONSIBLE FOR INTERNAL CONTROLS

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## **All staff should:**

- Read and understand the policies and procedures which affect their job
- Comply with the controls established to protect the University assets.
- Notice if there is a control weakness and bring it to the attention of the HOD or manager or Directors.

# INTERNAL CONTROLS: MYTHS VS. FACT

## Myth

Internal control starts with a strong set of policies and Procedures.

Internal control is why we have internal auditors.

Internal control is a finance thing. We do what the business office tells us.

Internal controls are a necessary evil. They take time away from our core activities, serving students.

Internal controls are a list of what not to do.

If controls are strong enough, we can be sure there will be no fraud, and financial statements will be accurate.

## Fact

Internal control starts with a strong control environment

Management is the owner of internal control

Internal control is integral to every aspect of the business

Internal controls should be built into, not on to business processes

Internal control makes the right things happen the first time, and every time

Internal controls provide reasonable, but not absolute assurance that objectives will be achieved

# INTRODUCTION TO POLICIES AND PROCEDURES

**There is an art and skill to writing policies and procedures:**

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## **Policies:**

- Express rules, expectations and requirements
- Explain what to do
- Are realistic and attainable
- Have an active voice (subject-verb-object)

## **Procedures:**

- List steps to follow
- Tell “how” to perform a job
- Have an active voice and are imperative



# POLICY AND PROCEDURE EXAMPLE:

## Policy:

Bank reconciliations must be prepared monthly.

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## Procedure:

1. Get bank records.
2. Gather your records.
3. Go over your bank deposits and withdrawals.
4. Check the income and expenses in your books.
5. Adjust the bank statements.
6. Adjust the cash balance.
7. Compare the end balances.
8. Sign-off as preparer
9. Submit to your supervisor for review and sign-off.

# POLICY AND PROCEDURE WRITING SKILL:

**Say what you mean and mean what you say.**

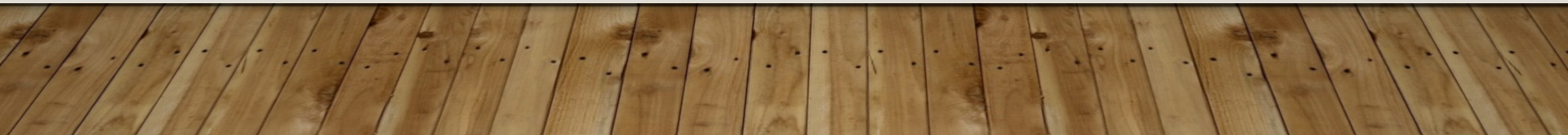
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- Be aware of all possible interpretations.

**Use specific language**

**Consider the Reader/Users**

- Don't assume anything
- Look at the experience of the user.



# WHY DON'T INTERNAL CONTROLS ALWAYS WORK?

- Inadequate knowledge of University policies or governing regulations. “I didn’t know that!”
- Inadequate segregation of duties. “We trust ‘A’ who does all of those things.”
- Inappropriate access to assets. Passwords shared, offices left unlocked.
- Form over substance “You mean I’m supposed to do something besides initial it.”
- Control override. “I know that’s the policy, but we do it this way.” “Just get it done, I don’t care how.”
- Inherent limitations. People are people and mistakes happen. You can’t foresee or eliminate all risk.

# INTERNAL CONTROLS ARE USUALLY PREVENTIVE OR DETECTIVE



**Preventive** – To stop an  
unwanted outcome before it  
happens

**Detective** – To find the  
problem before it grows



# EXAMPLES OF DETECTIVE CONTROLS:

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- Bank reconciliations (students payments/deposits)
- Reviewing reports
- Comparing transactions on monthly management reports to source documents



# EXAMPLES OF PREVENTIVE CONTROLS

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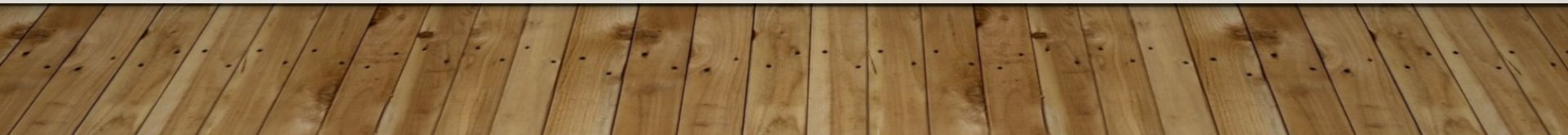
- To read and understand applicable University Policy and Procedures to learn a process.
- The use of computer passwords to stop unauthorized access.

# INTERNAL CONTROL FRAMEWORK

THE FRAMEWORK OF A GOOD INTERNAL CONTROL SYSTEM INCLUDES:

- **Control environment:** 

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- **Risk Assessment:**
- **Monitoring and Reviewing:** The system of internal control should be periodically reviewed by management.
- **Information and communication:** The availability of information and a clear and evident plan for communicating responsibilities and expectations is paramount to a good internal control system.
- **Control activities:** These are the activities that occur within an internal control system.



# CONTROL ACTIVITIES:

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- Internal control activities are the policies and procedures as well as the daily activities that occur within an internal control system. A good internal control system should include the control activities listed below. These activities generally fit into two types of activities.
  - **Preventive:** Preventive control activities aim to deter the instance of errors or fraud. Preventive activities include thorough documentation and authorization practices. Preventive control activities prevent undesirable "activities" from happening, thus require well thought out processes and risk identification.
  - **Detective:** Detective control activities identify undesirable "occurrences" after the fact. The most obvious detective control activity is reconciliation.

Some control activities include:

- Authorization (Preventive)
- Documentation (Preventive)
- Reconciliation (Detective)
- Security
- Separation of Duties

# CONTROL ACTIVITIES - BEST PRACTICES:

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With a good internal control system in place, other considerations to keep

in mind include:

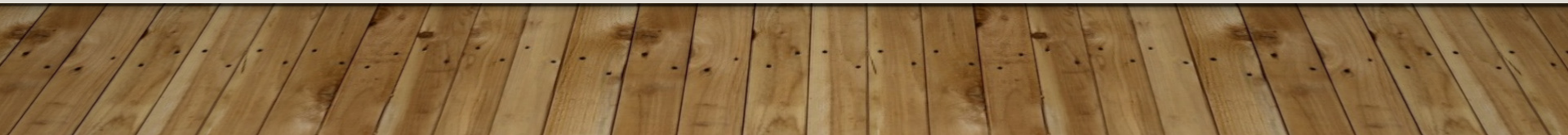
- Regularly communicate
- Periodically assess risks
- Management is responsible for making sure that all staff are familiar with University policies and changes in those policies.

# SOME ACCOUNTING CONTROLS GUARD AGAINST MISTAKES AND THEFT:

- Accounting is characterized by a lot of 'paperwork' — forms and procedures are plentiful. Internal accounting controls that guard against errors, omissions and theft are essential.
- Internal controls are designed to minimize errors in bookkeeping, which has to process a great deal of detailed information and data. Controls are also necessary to deter employee fraud, embezzlement, and theft.

## A few common examples of internal control procedures:

- Requiring a second signature on cash disbursements over a certain Rand amount (Authorization)
- Requiring mandatory vacations by every employee, including bookkeepers and accountants, during which time someone else does that person's job (because a second person may notice irregularities or deviations from University policies)





# POLICIES – INTERNAL CONTROL

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The University's accounting system is integrated with key business functions including accounts payable, budgeting, general ledger, accounts receivable, and payroll.

- Develop Policy
- Develop Procedure
- Implement Policy and Procedure

# AUTHORIZATION CONTROL

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- **Definition:** Authorization is the basis by which the authority to complete the various stages of a transaction is delegated. These stages include the processes of Recording (initiate, submit, process), Approving (pre-approval, post entry review), and Reconciling.
- **Purpose:** All transactions and activities should be carried out and approved by employees acting within their range of knowledge and proper span of control. Proper authorization practices serve as a proactive approach for preventing invalid transactions from occurring.

# AUTHORIZATION CONTROL I:

## KEY CONCEPT

## BEST PRACTICE

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- **Level of authority should be documented:**

Documented authority creates an expectation of responsibility and accountability. Authority to perform a particular action may come in hard copy documents or system generated authority.

- Policies and procedures within an organization should clearly identify which individuals have authority to initiate, submit, reconcile, view or approve different types of transactions.

# AUTHORIZATION CONTROL 2:

## KEY CONCEPT

- **Know what you are authorizing:**  
Individuals should have first hand knowledge of the transactions being approved, or they should review supporting documentation to verify the validity and appropriateness of transactions.  
An employee being uninformed of their responsibilities related to departmental procedures is not acceptable in a good internal control system.

## BEST PRACTICE

- Employees should be properly trained and informed of departmental procedures related to internal controls.

# AUTHORIZATION CONTROL 3:

## KEY CONCEPT

- **Authorization should be timely:**

Workflow is an important aspect of good internal controls. Time lags between approval and processing provide opportunities for altered documents and potential fraud.

## BEST PRACTICE

- Many falsifications occur after the approval of a transaction. The workflow process should stress timely authorizations as well as timely processing of transactions following approval. **Once a document has been approved it should not be returned to the preparer.**



# DOCUMENTATION CONTROL:

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**Definition:** In the context of internal controls, paper or electronic communication which supports the completion of the lifecycle of a transaction meets the criteria for documentation. Anything that provides evidence for a transaction, who has performed each action pertaining to a transaction, and the authority to perform such activities are all considered within the realm of documentation for these purposes.

**Purpose:**

- Documents provide a financial record of each event or activity, and therefore ensure the accuracy and completeness of transactions. This includes expenses, revenues, inventories, personnel and other types of transactions. Proper documentation provides evidence of what has transpired as well as provides information for researching discrepancies.
- Supporting documentation may come in paper or electronic form. In recent years, more often, official supporting documentation has moved from paper based to electronic forms. Keep in mind that in some instances electronic processing and approvals are the source documents for transactions.

# DOCUMENTATION CONTROL I:

## KEY CONCEPT

- **Format of source documents:**

Well designed documents help ensure the proper recording of transactions. Consistent use of standard forms or templates should be considered whenever possible.

## BEST PRACTICE

- The advance of online applications provides a fast and efficient method for accessing supporting documentation in a standard format. In other areas, wherever possible, the use of templates provides the same benefits. Consider creating templates for activities such as:
  - Email approvals
  - Departmentally created supporting documentation
  - Time reporting

# DOCUMENTATION CONTROL 2:

## KEY CONCEPT

- **University ownership of documents:**

Documents used to support University business transactions.

## BEST PRACTICE

- Whenever possible, do not allow employees to take University owned records home. If business needs require University records to be taken home, communicate to employees their responsibility to keep documents secure, particularly those containing personal information.

# DOCUMENTATION CONTROL 3:

## KEY CONCEPT

- **Documenting changes:**

Changes made subsequent to approval of documents should be clear and concise.

## BEST PRACTICE

- Use attachments or footnotes to document the reasons for corrections/adjustments to any records. Make the time/date and the approval of such corrections/adjustments clear and evident.



# DOCUMENTATION CONTROL 4:

## KEY CONCEPT

- **Avoid duplicate processing:**

Establish a method to avoid duplicate processing, especially in regards to transactions that result in payments. Students refunds

## BEST PRACTICE

- Build a check for duplicate payments into the processing and approval
- Create an environment in which students receivables transactions processed in a timely manner.
- Long delays in processing create opportunities for duplicate payments that go undiscovered.
- Look closely at all late entries to watch for double submission of payments.



# DOCUMENTATION CONTROL 5:

## KEY CONCEPT

- **Retention:**

Retention policies exist for all types of supporting documentation. Always keep documents for the appropriate retention period and no longer.

## BEST PRACTICE

- Establish a process for purging documents that have reached the end of their retention period. Document who, when and how each record type should be purged.
- Be aware of record retention responsibilities.

# RECONCILIATION CONTROL:

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## **Definition:**

- Reconciliation is the process of comparing transactions and activity to supporting documentation. Further, reconciliation involves resolving any discrepancies that may have been discovered.

## **Purpose:**

- The process of reconciliation ensures the accuracy and validity of financial information. Also, a proper reconciliation process ensures that unauthorized changes have not occurred to transactions during processing.

# RECONCILIATION CONTROL I:

## KEY CONCEPT

## BEST PRACTICE

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- **Accuracy of activity:**

A good internal control system provides a mechanism to verify that transactions and activity are for the correct purpose and amount, and allowable.

- For each type of activity consider documenting the particular information from source documents that is to be compared to the appropriate report. This assists to ensure that transactions are valid and are correct in purpose.
- Ensure that transactions have been properly authorized. Especially, if the source documents are paper based, review for potential changes to the document between approval and processing of transactions.
- Ensure that all transactions are allowable.

# RECONCILIATION CONTROL 2:

## KEY CONCEPT

- **Error correction:** Errors and discrepancies, intentional or unintentional, should be detected, investigated and resolved in a timely fashion.

## BEST PRACTICE

- Verify the recording of transactions in a timely manner. Review source documents to assure they are processed and posted in a timely manner by the processing department. If not, follow up with the appropriate office
- Document a plan for the research and correction of errors or discrepancies of each type of transaction or activity. Communicate these processes and procedures with the appropriate staff.
- Establish expectations for timeliness of error correction.



# RECONCILIATION CONTROL 3:

## KEY CONCEPT

- **Matching to the source:** The oversight of any transaction is strengthened by the process of matching source documentation of the transaction to the appropriate reporting documentation or reporting tool.

## BEST PRACTICE

**What is budget reconciliation, and why do we need to do it?**

- Budget reconciliation is the process of reviewing transactions and supporting documentation, and resolving any discrepancies that are discovered.

**How often should we reconcile?**

- Monthly,



# RECONCILIATION CONTROL 4:

## KEY CONCEPT

- **Documenting the process and completion:**
- Reconciliation processes are most effective when consistent and thorough. Employees involved in the reconciliation process should be knowledgeable and clear on responsibilities and expectations
- It should be clear to an external reviewer when a reconciliation has been completed

## BEST PRACTICE

- Reconciliation should be documented clearly to verify that a review has been done
- The reconciliation process and procedures should be documented clearly and communicated. Consider documenting:
  - The steps in the process
  - Who performs each step
  - Expectations regarding timeliness
  - A mechanism for providing proof that all activity has been reviewed and reconciled
  - A procedure for error correction

# SECURITY CONTROL:

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**Definition:** The security of University assets and records includes three types of safeguards; Administrative, Physical and Technical:

Administrative security: This focuses on the University processes put in place to protect assets and records. This includes the above mentioned processes of authorization and reconciliation.

Physical security: This is the protection of physical records and assets from loss by theft or damage.

Technical security: This is the protection of electronic records from loss by theft, damage, or loss in transport.

## **Purpose:**

Assets and records should be kept secure at all times to prevent unauthorized access, loss or damage. The security of assets and records is essential for ongoing operations, accuracy of information, privacy of personal information included in some records and in many cases is a SA law.

# SECURITY CONTROL I:

## KEY CONCEPT

## BEST PRACTICE

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**Designate a  
Point  
person**

- Designating a point person for all areas or individually for the 3 types of security provides an established responsibility and accountability for proper security procedures.

# SECURITY CONTROL 2:

## KEY

## BEST PRACTICE

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## CONCEPT

### Administrative Organization

- Keep an up-to-date organizational chart that defines the reporting relationships as well as responsibilities, including back-up responsibilities, regarding internal controls within the Student Finance division.

# SECURITY CONTROL 3:

## KEY CONCEPT

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### **Access to electronic records:**

- Limit access to records and assets to those who have been authorized and have a business need for them.

## BEST PRACTICE

- Establish and communicate unit standards for screensavers and password protected screens.
- Setup password protected access to electronic records.



# SECURITY CONTROL 4:

## KEY CONCEPT

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## BEST PRACTICE

### **Physical access to records:**

- Limit access to records and assets to those who have been authorized and have a business need for them.

- Do not allow electronic records to be downloaded to mobile workstations and transported outside of the office.
- Keep important records in lockable, fireproof storage

# SECURITY CONTROL 5:

## KEY CONCEPT

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## BEST PRACTICE

### Employee Turnover:

- Limit access to records and assets to those who have been authorized and have a business need for them.
- Develop a checklist for removing access to records upon separation of an employee or upon transfer out of the Student Finance division. Develop a process and assign a point person the responsibility of administering the process for deleting access to records.

# SECURITY CONTROL 6:

## KEY CONCEPT

## BEST PRACTICE

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### **Passwords:**

- Have a prescribed standard for Student finance division passwords. Make them complex and enforce a policy for changing passwords periodically.

# SEPARATION OF DUTIES CONTROL:

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**Definition:** Separation of duties is the means by which no one person has sole control over the lifespan of a transaction. Ideally, no one person should be able to initiate, record, authorize and reconcile a transaction.

**Purpose:** All Universities should separate functional responsibilities. The separation of duties assures that mistakes, intentional or unintentional, cannot be made without being discovered by another person.

# SEPARATION OF DUTIES CONTROL I:

## KEY CONCEPT

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### Unit differences:

- Separation of duties may vary depending on each division's size and structure.

## BEST PRACTICE

- Duties may be separated by division or by individuals within a division. The level of risk associated with a transaction should come into play when determining the best method for separating duties.



# SEPARATION OF DUTIES

## CONTROL 2:

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### KEY CONCEPT

#### **Demonstration:**

- Separation of duties should be able to be demonstrated to an outside party.

### BEST PRACTICE

- Documentation of processes and authorization is helpful in demonstrating a system of control that includes separation of duties.

# SEPARATION OF DUTIES CONTROL 3:

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## KEY CONCEPT

**Document the responsibilities:**

- Separation of duties should be clearly defined, assigned and documented.

## BEST PRACTICE

- Document and clearly communicate who will initiate, submit, process, authorize, review and/or reconcile each activity within the division.

# SEPARATION OF DUTIES

## CONTROL 4:

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### KEY CONCEPT

#### **Review and oversight:**

- Management should increase the review and oversight function when it is difficult to sufficiently separate duties.

### BEST PRACTICE

- Assess the potential for mistakes or fraudulent transactions. If the separation of duties is not sufficient to eliminate or adequately reduce the risk of discovering errors, the level of review of management should be increased over the particular activity.

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# QUESTIONS

# ???