ALFAISAL UNIVERSITY

ACCOUNTING & FINANCIAL POLICIES

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Part I

FINANCIAL POLICIES

Section I

INTERNAL CONTROLS

1 – EFFECTIVE SYSTEM OF INTERNAL CONTROL

Policy Alfaisal University should maintain an effective system of internal control in order to monitor compliance with policies and procedures established by management.

General Definition:
"Internal control is a major part of managing an organization. It comprises the plans, methods, and procedures used to meet mission, goals, and objectives and, on doing so, supports performance-based management. Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. Internal control should provide reasonable assurance that the objectives of the University are being achieved the following categories:

- Effectiveness and efficiency of operations including the use of the entity's resources.
- Reliability of financial reporting, including reports on budget execution, financial statements, and other reports for internal and external use.
- Compliance with the University manuals and procedures.

A subset of these categories or objectives is the safeguarding of assets. Internal control should be designed to provide reasonable assurance regarding prevention of or prompt detection of unauthorized acquisition, use, or disposition of a University's assets."

Internal Control Standards: The Five Standards for Internal Control

1. **Control Environment**: Management and employees should establish and maintain an environment throughout the University that sets a positive and supportive attitude toward internal control and conscientious management.
2. **Risk Assessment**: Internal control should provide for an assessment of the risks the University faces from both external and internal sources.
3. **Control Activities**: Internal controls activities help ensure that management's directives are carried out. The control activities should be effective and efficient in accomplishing University control objectives.
4. **Information and Communications**: Information should be recorded and communicated to management and others within the University who need it and in a form and within a time frame that enables them to carry out their internal control and other responsibilities.
5. **Monitoring**: Internal control monitoring should assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved.

Objectives:

Internal control can be divided into two areas: accounting controls and administrative controls. Administrative controls deal with the operations of the University, whereas the accounting controls deal with accounting for such operations. This manual focuses on internal accounting controls (although there may be some overlap between the two). Accounting controls should be designed to achieve the following five basic objectives:

Validation:

Validation is the examination of documentation, by someone with an understanding of the accounting system, for evidence that a recorded transaction actually took place and that it occurred in accordance with the prescribed procedures. As systems grow more sophisticated, validation is a built-in component whereby the transactions test themselves against predetermined exceptions. For example, confirms that all relevant details of a transaction are properly recorded: the nature, quality, and condition of goods received are checked by accounting, weighing, and inspecting and recorded at time of receipt.

Accuracy:

The accuracy of amounts and accounts classification is achieved by establishing control tasks to check calculations, extensions, additions, and account classifications. The control objective is to be certain that each transaction is recorded at the correct amount, in the appropriate account, in the right time period. For example, one might "double-check" another individual's work on sales invoices by repeating the calculations, extensions, and additions and reviewing the account distributions. Control tasks, which ensure that transactions are recorded and reported in the proper accounting period, are essential to accurate financial reporting. For example, when goods are received they should be checked and recorded at the time of receipt. The receiving records should then be matched with the related vendor's invoices as a further check on the timely recording of transactions.

Completeness:

Completeness of control tasks ensures that all transactions are initially recorded on a control document and accepted for processing once and once only. Completeness controls are needed to ensure proper summarization of information and proper preparation of financial reports. To ensure proper summarization of recorded transactions as well as a final check of completeness, subsidiary ledgers and journals with control accounts need to be maintained. This is because individual transactions are the source of the ultimate product-financial reports. Completeness can be achieved by using two techniques. One is to sequentially number all transactions via documents as soon as the transactions occur and then apply the control task of accounting for all the numbered documents completed in the processing. The use of "control totals" also provides information by which control is exercised. This is done by totaling the critical numbers before and after processing. When the two totals agree, one assumes that the processing is complete.

Maintenance:

The objective of the maintenance controls is to monitor accounting records after the entry of transactions to ensure that they continue to reflect accurately the operations of the business. The control system should provide systematic responses to errors when they occur, to changed conditions, and to new types of transactions. The maintenance function should be accomplished principally by the operation of the system itself. Control maintenance policies require procedures, decisions, documentation, and subsequent review by a responsible authorized individual. Disciplinary control tasks, such as supervision and segregation of duties, should ensure that the internal control system is operating as planned.

Physical Security:

It is important in all business organizations that the assets are adequately protected. Physical security of assets requires that access to assets be limited to authorized personnel. One means to limit access to both assets and related accounting records is through the use of physical controls. Protection devices restrict unauthorized personnel from obtaining direct access to assets or indirect access through accounting records, which could be used to misappropriate assets. Locked storage facilities restrict access to inventories, and fireproof vaults prevent access to petty cash vouchers. Transaction recording equipment limits access to assets by limiting the number of employees involved in recording and posting transactions, thereby minimizing the possibility of fraudulent misrepresentation. Electronic cash registers can record cash sales both on cash register tapes and at an off-site electronic storage facility, creating two records of a single transaction. Many control procedures are common to various areas of accounting. They have been discussed in this chapter as a convenience to the user of this manual and to emphasize that similar procedures are applicable to many control objectives.

Section II

GENERAL LEDGER AND JOURNAL ENTRIES

1- MAINTAINING AN EFFECTIVE ACCOUNTING SYSTEM

Policy Alfaisal University should establish and maintain an effective accounting system to capture data regarding the economic activity of the University.

General Management requires accurate and timely financial reports in order to judge the performance of each Center and plan for future activities. University maintains accounting records in accordance with the Accepted Accounting Principles. The Finance Department is responsible for all financial data classification and coding structures. Any changes to established codes will be issued by the Finance Department.

2- GENERAL LEDGER ACTIVITY

Policy All valid general ledger entries, and only those entries, should be accurately recorded in the general ledger.

General The general ledger consists of control accounts for accounts in the University's chart of accounts. These accounts are listed in the general ledger in numerical order with the account title.

3- ADEQUATE GENERAL LEDGER MAINTENANCE

Policy The general ledger should be adequately maintained.

General As stated throughout this section, the general ledger accounts are the source of all of the financial reports used by management. It is therefore critical that the accounting records, after the entry of transactions in them, are properly controlled so that they continue to reflect accurately the operations of the centers.

4. FISCAL YEAR PERIOD

Policy The University and each of its Centers will maintain a fiscal year of October 1st to September 30th.

General All contracts, reports, and accounting records should reflect the fiscal year as October 1st to September 30th.

5. MONTHLY CLOSING PROCEDURES

The deadline for monthly closing should not exceed the 10th working day of the next month. This means that we should make sure that we receive all or most of the third parties invoices by the day number 5 of the next month. Based on the above we would appreciate if you increase the efforts with us to follow up with the suppliers, Petty Cash, and the procurement to ensure receive any pending bills for the month by the above-mentioned date.

This will help to:

- Increase the efficiency of all our work.
- Enable the management to receive accurate and complete information.
- Meet all our reporting deadlines internally and also for Shared Services Agreements.

Section III

PREPAID EXPENSES & INVENTORY

1- MONITORING AND ACCOUNTING FOR PREPAID EXPENSES

Policy Alfaisal University shall establish a method to monitor and account for prepaid expenses.

General Prepaid expenses arise whenever cash is disbursed and a portion of the associated benefit of the disbursement is for a future period. An illustration of a prepaid expense is an insurance premium that is paid in a lump sum when the policy is issued or renewed and the policy covers multiple accounting periods. Consequently, an asset (prepaid expense) is recorded on the books for the total premium when paid and is charged (amortized) to expense ratably over the coverage period.

2- CONTROLLING ASSET BALANCES

Policy Detailed records of prepaid expenses should be reconciled periodically with the control account.

General Reconciliation's should be performed to help ensure the accuracy of the detailed records and the control account.

3- COST - FLOW METHODS

Policy Determination of a cost-flow assumption and method of allocating production costs should be made by appropriate levels of management.

General Various cost-flow assumptions may be used including specific identification; first in, first out (FIFO); last in, first out (LIFO); and variations thereof. Within FIFO and LIFO, the most common conventions utilized are average cost and standard cost. Direct labor and material may be charged via a standard cost system or specific job orders. Other production costs (indirect costs) should be allocated by either of the following methods:

- Direct costing-variable indirect costs (e.g., indirect labor) are allocated to units produced, and fixed indirect costs (e.g., factory rent) are accounted for as a period expense. If this method is used, Alfaisal University needs to have the ability to convert to full absorption for external reporting.

- Full absorption costing: All variable and fixed indirect costs are allocated to all product units produced.

  Finished goods are normally accounted for on the same basis as raw materials (FIFO, LIFO, etc.) and include accumulations of various raw materials, component parts, and production costs.

4- INVENTORY CONTROL

Policy Enforce internal controls to provide physical security for all inventory (raw materials, component parts, work in progress, finished goods, and other) should be established.

General Cost/benefit analyses should be utilized to ascertain the optimum level of security that should be provided (e.g., locked storage areas, site security guards, etc.). Relative value, likelihood of, and ease of removal/loss are factors to be considered in drawing a conclusion.

Inventory System Security

1. The overall Inventory System Software Security lies with IT.
2. The access to Inventory System is given to:
- **General Ledger Accountant**, for processing Inventory data and generating Inventory reports.
- **Storekeeper**, for processing Issue/Receipt and Inventory reports.
- **Finance/Centers Staff**, for viewing and printing only their respective responsibility areas
3. All access authorization to Inventory System shall remain with Procurement manager.
4. Quantity adjustment can only be made by Storekeeper through Material Issue/Receipt Voucher, by proper authority.

Coding Scheme

1. Each store item should have unique code.
2. There are many major categories could be identified for all store items. These categories may be expanded based on business requirement.
3. In order to avoid duplication in store item code, Warehouse supervisor is authorized to issue new store item codes.
4. All warehouses shall use Material Receipt Voucher (MRV) and Material Issue Voucher (MIV) to record the inventory transactions. All MRV and MIV should be given unique number by concerned warehouse starting with MRV and MIV respectively.

5- PERPETUAL INVENTORY

Policy Alfaisal University should maintain selected inventory types on a perpetual inventory, where it more cost effective to do so, and the general/edger should accurately reflect the perpetual inventory

General For some inventory types Alfaisal University will not use a perpetual inventory system for various reasons:

- Small size of the inventory.
- Small number of Alfaisal University personnel using the inventory type.
- Slow turnover of inventory.
- Lack of sophistication in accounting records.

Use and maintenance of a perpetual inventory is the preferred method; without it, management is unable to determine costs incurred for use in programs, volume, and the Saudi Riyal value of inventory on hand at any one moment.

6- PERIODIC PHYSICAL INVENTORY

Policy A physical count of all inventories should be made periodically (at least annually).

General Physical counts of all types of inventory may be taken concurrently at one time or periodically (cycle counts) throughout the year.

7- INVENTORY OBSOLESCENCE

Policy Management should ensure that inventory, material, component parts, and finished goods are evaluated for obsolescence.

General In addition to comparing the carrying cost of inventory with its market value, a comparison must also be made of the quantity of product on hand with the demand for it.

Section IV

PAYMENTS

1- DISBURSEMENTS FROM BANK ACCOUNTS

Policy Disbursements from bank accounts should be made only for valid transactions.

General The payment for goods and services, whether accomplished by check or bank transfer, should be organized to ensure that no unauthorized payments are made, that complete and accurate records are made of each payment, and that payments are recorded in the appropriate period. Additionally, physical access to cash and un-issued checks must be restricted to authorized personnel.

It is the responsibility of the Finance Department to check, control and make payments to suppliers and contractors after verifying that materials, supplies and services have been attested for receipt and that prices charged are in accordance with approved contracts, purchase orders or as otherwise agreed.

The Purchasing Department within Alfaisal University is responsible for ordering, controlling and attesting the receipt of materials, supplies or services in accordance with approved contracts or purchase orders. They are also responsible to ensure that no commitment is made for such materials, supplies or services until enabling contracts, purchase orders or other forms of agreement are covered by an approved budget item and are authorized within the limits of the Delegation of Authority.

Alfaisal University will deal with the suppliers or contractors in a professional and ethical manner, ensuring that payments are made within agreed terms whenever possible, and that we develop and maintain a positive reputation within the business community.

Alfaisal University's internal audit department may verify, without notice, the processes and accuracy of these procedures as deemed necessary to satisfy management, the Board of Directors and external agencies' confidence in the Alfaisal University's policies.

2- AUTHORIZATION FOR EXPENDITURE (AFE)

Policy Implement controls that monitor and restrict financial commitments to ensure that Alfaisal University does not exceed approved budgeted amounts. Within these controls, the AFE procedures assist in the financial control of capital expenditures in that no capital expenditure may be made unless there is an approved AFE in place.

General This policy is to be used for both the construction and operational activities of Alfaisal University. Generally an AFE will be required for all major projects.

3- BANK RECONCILIATIONS

Policy Adequate steps should be taken to confirm the accuracy of the bank balances shown in the general ledger. Bank reconciliations should be completed as soon after month end as possible.

General Generally monthly data on cash receipts and disbursements journal should be compared with the details reported on bank statements. Unmatched, and mismatched data are used to reconcile the book and bank balances. The reconciliation may be performed manually by general accounting personnel (who do not have access to cash and are not involved in processing or recording cash transactions), or they may be performed by the computer when the organization's cash records are computerized and banks furnished statements on computer-readable media.

4- IMPREST (PETTY) AND SIMILAR FUNDS

Authority This Guide Memo is approved by [Title and Date].

Summary This Guide Memo outlines policy on establishing and managing a petty cash fund.

Section headings for this Guide Memo are:

1. USES OF PETTY CASH
2. ESTABLISHING A PETTY CASH FUND
3. CUSTODIAN RESPONSIBILITIES
4. MAINTAINING A PETIY CASH FUND

5- EMPLOYEE EXPENSE REIMBURSEMENT

Policy Employees who incur expenses in the conduct of carrying out their duties and responsibilities should be reimbursed in an expedient manner.

General Employees will encounter situations, typically when traveling, that expenses are incurred and paid for using personal funds or credit card. These employees should complete the appropriate form, obtain approval and submit for reimbursement.

Section V

REVENUE

1. CREDIT POLICY

Policy Determination of an appropriate credit policy should be made by management personnel and strictly adhered to. Typically this is reflected in an approved fee model for each Center, and payment used on invoice receipt.

General Establishing credit terms and discounts is a business decision made in consultation with higher authority of the management, which includes determining the credit to be extended, the type and amount of discounts, the length of the discount period, return and adjustment policies, and special financing arrangements.

Discount labeled (a) is a common discount in current practice. The others are under consideration. Credit Terms of when payment is due varies in each fee model.

2. REVENUE RECOGNITION

Revenue is generally recognized when:

- It is realized or realizable; and
- It has been earned.

Policy All revenue should be recorded accurately and on timely basis. Services activities accounts are on accrual basis so revenues are recognized when invoiced. The responsible for account receivable has to checks:

- When the event took place; and
- If the services taken place, in order to determine how to recognize revenue.

All invoices adjustments must have an invoice adjustment form completed specifying invoice number, customer ID, reason for adjustment and an authorized signature approving the adjustment.

General The preparation of a service invoice generally initiates the formal recording of revenue. Control over invoicing is established by authorization bill and is based upon supporting documents such as the client’s order, or student registration.

3. ACCOUNTS RECEIVABLE (AR)

Policy Accounts receivable records should be accurate, complete, and maintained in a manner to indicate the length of time the customers debt has been outstanding.

General Accounts receivable arise from services on credit to students/clients. The account is relieved by the posting of receipts from the cash receipts journal, approved credit memos for allowances, or returned merchandise and write- efts of un-collectible accounts.

4. CUSTOMER RETURNS AND ALLOWANCES

Policy Return and allowances should be controlled, documented, and recorded.

General The return of goods by the client results in adjusting receivables and inventory. Allowances are less frequent yet difficult to ascertain. They are often based upon evaluations of client complaints. Returns could be for books, uniforms, stationary, etc. where permitted by issuing Center.

5. OTHER REVENUES

Policy Other types of revenue should be recorded on a timely basis.

General Revenues flow into Alfaisal University from sources other than the conventional sales of products and services. Interest and rent are examples of the more common sources.

6. SALE OF GOODS AND SERVICES

Policy The mission of Alfaisal University is to provide a fertile and stimulating environment for teaching, learning, research and service; to promote the pursuit of knowledge, to disseminate professional skills, and to provide high quality patient care. In carrying out these missions, it is often necessary for Alfaisal University and its affiliated Centers to provide goods and services which enhance, promote, or support those functions. At the same time, Alfaisal University must be mindful that when it provides goods and services it may be competing with local private businesses. Alfaisal University will engage in the direct sale of goods and services to individuals, groups, or external agencies only when those services or goods are directly and substantially related to the mission of Alfaisal University. Charges for goods and services shall be determined taking into account their full cost, including overhead when appropriate, as well as the competitive price of such items in the local community.

General Recognizing the central mission of Alfaisal University, the above guidelines shall not apply to charges for instruction in its regular, evening, or continuing education program; services provided in the practicum aspects of its instructional and research programs; services for fees in its extracurricular or residential life programs, including residence halls, food services, athletic and recreational programs; charges for patient care, including pharmacy services, food services, and housing services; and all other academic, research, service and health services delivery/patient care service programs directly related to the mission of Alfaisal University.

The selling of services to faculty, staff, students, and patients which are for the convenience of and in support of the mission of Alfaisal University is distinctly different from sales to persons or organizations external to Alfaisal University. Therefore, different criteria to evaluate requests for such programs are appropriate. Each of the following criteria shall be used in assessing the suitability of providing goods or services to members of the Alfaisal University community:

1. The goods or service is substantially and directly related to Alfaisal University's instructional, research, or service mission, and patient care mission.
2. Provision of the good or service on campus represents a convenience to and supports residential life of the Alfaisal University community.
3. The price or fee for the goods or services is established at such a level as to account for full costs, including Alfaisal University overhead.
4. Procedures should be in place for insuring that the service is provided only to members of the campus.

The sales of goods and services to the external community shall be undertaken only if the goods or services are directly and substantially related to the mission of Alfaisal University. Each of the following criteria shall be used in assessing the suitability of providing goods or services to the external community.

1. The good or service represents a resource which is directly related to a Center mission, which is not commonly available or otherwise accessible, and for which there is a demand from the external community.
2. The price or fee of the good or service, including overhead when applicable, is competitive with the price of similar items in the private market place.

Section VI

PLANNING PROCESS

1- BUSINESS & FINANCIAL PLANNING

Policy Management should establish philosophy, methodology and processes concerning business planning, and the related financial planning. The Board of Trustees approve the annual budget no later than 30 days before the beginning of the year to which it relates. The fiscal year of Alfaisal University start on 1st of October and end on 30th of September.

General The business and financial planning process is critical in having proper accountability and ensuring planning and coordination is done in a cost effective manner. It is recognized that the planning cycle has to move up from previous years, so that authorized recruitment and detailed program change planning can occur, well before the fiscal year begins. The new fiscal year starts on 1st of October to 30th of September.

The development of a business plan from each center is required, supported with a financial plan complementing the planned business activities. To this end, Alfaisal University will evolve into sharing more information, coordinate our efforts better, and have more accountability and flow of ideas to learn from each other. With a business plan and periodic reporting of status the Alfaisal University can then defend the center's program to others, support the ideas and plans, encourage you, compare and stretch your talents for the betterment of all. Alfaisal University does not plan to micro-manage the Centers, but do require sufficient information to macro-manage to the desired outcomes. Accompanying this document are two associated materials.

1. A generic business plan template as a means to capture your plans in a fairly consistent manner to other Centers.
2. Financial plan methodology and guidelines that have been reviewed by the Board of Trustee.
3. The financial plan workbook to capture financial details.

A business and financial plans template will evolve in support of Alfaisal University's planning and recognizing achievements. (The non-academic centers will need to adapt the business plan components to reflect the services they provide to its clients.).

Section VII

INVESTMENTS

1- INVESTMENT OF IDLE FUNDS

Policy Funds not presently needed for Alfaisal University operations should be invested to optimize return. Such investments should be property authorized and accurately accounted for.

General Alfaisal University should invest available funds in order to maximize earnings and minimize risk during the period of availability of the funds. The overall investment policy, specifying the needed liquidity of investments, acceptable risk, and expected returns, should be established by management and approved by Alfaisal University's Board of Trustee. The following is a description of certain types of investments Alfaisal University might have. This listing is not intended to be all-inclusive but rather to present common forms of investments:

2- SAFEGUARDING OF INVESTMENTS

Policy All investments should be safeguarded against physical loss or misuse.

General All investments should be properly controlled to safeguard against theft misuse, or damage. Certificates and other investment documents should be properly controlled by authorized personnel and bankers or brokers, if any.

3- RETURN ON INVESTMENT

Policy Earnings on investments should be calculated and recorded in the general ledger monthly.

General Separate investment income accounts should be utilized to record monthly activity. Such accounts should include interest and dividend accruals, and related interest and dividend income account as well as accounts for both the unamortized balance and the current year amortization of investment premiums and discounts.

4- INVESTMENTS WITH SIGNIFICANT INFLUENCE

Policy The equity method should be used to account for investments in common stock in which Alfaisal University exercises "significant influence" over the investee corporation.

General The provisions of Accounting Principles applied in Saudi Arabia should be implemented for this kind of Investments such as:

- Unconsolidated subsidiaries,
- Corporate joint ventures, and
- Other investments of less than 50 percent of the voting stock of the investee corporation where Alfaisal University can exert "significant influence". This is usually investments of 20% to 50% ownership.

Section VIII

SHARED SERVICES COST ALLOCATION

1- SHARED SERVICES COST ALLOCAT ION

Policy Determination of a cost allocation assumption for shared services provided by Alfaisal University Administration and method of allocating support costs should be made by the management.

General To determine the full program costs for the Centers, the shared services received should be costed and allocated out, even to the cost department level of a Center.

Section IX

CAPITAL ASSETS

1- ADDITIONS TO CAPITAL ASSETS

Policy All additions to Capital Assets should be properly authorized. Expenditures for assets used actively in business operations that benefit a period exceeding one fiscal year should be capitalized.

General Capital Assets are generally categorized by the following broad asset types:

- Land
- Land improvements
- Utilities and infrastructure
- Buildings
- Equipment- general
- Furniture
- Equipment- electronic

- Library start-up books
- Vehicles
- Laboratory equipment
- Computers and printers
- Software license

Capital budgeting is as integral to forming Alfaisal University's annual business plan as is operations budgeting. Since the budgeting process must take place far in advance, estimations of acquisitions in the budget year must be made. The decision to purchase a capital asset should be an informed one based on current year budgets, projected benefits of the addition utilization, and analysis of the lease versus purchase option. Note that Capital Assets and Fixed Assets terms are used interchangeably.

Commencement of Depreciation

The commencement of depreciation shall start from the month in which Alfaisal University receives the fixed asset. If the asset is constructed/manufactured by Alfaisal University, the month of commissioning of the asset shall be the commencement date. Moreover, the depreciation shall be calculated for the whole month irrespective of the date of receipt of the asset during the month. For example, if the asset is received on 25th day of the month in April, the depreciation for the full month of April shall be charged.

Physical Inventory

Each Centers Director and concerned Department Manger is the custodian of fixed assets held by him or her. Finance Department is responsible to maintain the Alfaisal University asset register. A physical inventory shall be undertaken by Finance Department at least once in two years.

2- FIXED ASSET COMMITTEE (FAC)

Fixed Asset Committee (FAC) is composed of:

- Finance Manager.
- Facility Manager.
- Procurement Manager.
- Manager of Initiating Department/ Centers.

In the absence of any permanent member, an alternate member from the same department shall participate in FAC.

The terms of reference for FAC is shown as below:

1. INTRODUCTION

The Managing Director should establish a Committee to be known as FIXED ASSET COMMITTEE (Hereinafter referred to as "FAC") to monitor the fixed asset, its classification and depreciation.

2. OBJECTIVES

1. The "Fixed Assets Committee" (FAC) is set up to ensure compliance with Alfaisal University policies and procedures on fixed assets.
2. FAC has an advisory role to Management on fixed assets. FAC reviews and makes recommendations to Management on the following matters:
   a) Write-off of assets
   b) Disposal of assets
   c) Any changes in asset classification and rate of depreciation.

3. RESPONSIBILITIES

3.1 Write-off of Asset

1. Review the justification for write-off.
2. Hold discussions with concerned Departments and centers as required.
3. Consider alternate uses of discarded asset before write-off.
4. Recommend write-off to remove the asset and place the asset for disposal.

3.2 Disposal of Asset

1. Consider the alternate uses of asset before disposal.
2. Ensure the disposal of assets is made in the best interest of the University.
3. Inspect assets to determine their estimated selling price and disposal mode.
4. Evaluate all possibilities to use assets before recommending disposal.
5. Recommend the disposal either via public auction or any other manner beneficial Alfaisal University to Executive Director.

4. AUTHORITIES

FAC is established to assist and advise Executive Director on the monitoring of fixed asset.

The Chairman of the Committee is assigned with the authority to call and conduct FAC meetings and reports the recommendations of the Committee to the Managing Director.

5. COMPOSITION

5.1 Membership - Permanent Members

The "Fixed Assets Committee" consists of the following THREE voting Permanent Members:

- Manager, Finance – Chairman
- Manager, Facility
- Manager, Procurement

5.2 Memberships- Co-opted Members

The initiating Department / Center will be invited to attend the FAC meetings. Such Manager shall have the same voting power as Permanent Members.

5.3 Alternate Members

1. In the event of any permanent member being unable to attend meeting, an alternate member will attend the meeting.
2. Managing Director shall appoint the alternate member.
3. Such alternate members shall have the same voting powers as permanent members.

5.4 Secretary

1. The Chief Accountant of Finance Department is appointed as Secretary to the FAC.
2. The Secretary has no voting right.
3. The Secretary shall send a copy of all correspondence, agenda / minutes of meetings including related documentation to FAC Members and initiating Department / Center.
4. The proceedings of the meeting are recorded with the results of the vote and circulated by the Secretary to be signed by all Members present.
5. Dissenting opinions, if any should be recorded and stated in the Minutes of Meeting.

6. QUORUM & DECISIONS

1. The Committee can effectively make recommendations when at least TWO permanent members are present to the meeting including the Chairman or his substitute.

2. The decision shall be taken on the basis of majority of votes. In case of tie, the majority of vote considered where Chairman of FAC has voted. FAC is responsible to ensure compliance with Alfaisal University policies and procedures on fixed assets. FAC has an advisory role to management on fixed assets. FAC reviews and recommends asset

acquisition, capitalization, write-off and disposal. Managing Director shall approve fixed Asset write-off.

3- ACCURATE RECORDS OF CAPITAL ASSETS

Policy Accurate records should be maintained of the cost and accumulated depreciation of all types of Capital Assets.

General The acquisition of capital assets should be organized to ensure that no unauthorized acquisitions have been made and that records of each acquisition are accurate, complete, and recorded in the appropriate period.

4- DEPRECIATION OF CAPITAL ASS ETS

Policy The cost (less salvage value) of all capitalized assets should be allocated (depreciated) over the estimated useful lives in a rational and systematic manner.

General Four generally accepted depreciation methods can be used to systematically allocate an asset's cost (less salvage value) over its useful life.

5- EXISTENCE OF CAPITAL ASSETS

Policy Control should be maintained over capital assets and their related records to ensure that all recorded assets exist and are in use for operations.

General The physical existence of capital assets should be verified and reconciled to the Capital Asset records. At a minimum the assets should be physically verified every three years.

6- DISPOSAL OF CAPITAL ASSETS

Policy Disposal of capital assets should occur only after proper authorization has been given.

General Control over the disposition of property should be maintained not only to preserve the accuracy of the records but also to ensure that assets are safeguarded, improper disposal is avoided, and the best possible terms are received for disposal.

Section X

PURCHASING CYCLE

1- DETERMINATION OF NEEDS

Policy Determination of Alfaisal University needs for goods and services should be made by appropriate personnel and according to Alfaisal University guidelines.

General The determination of needs for goods and services, such as spare parts inventory, equipment, office supplies, and professional services, should be made by qualified individuals in Alfaisal University award Centers and according to organizational guidelines that consider adequate quantities, reasonable prices, timely receipt, proper specifications, and desired quality. The guidelines must also consider and avoid the disruption of operational efficiency because of improper or untimely purchases and potential losses and use of cash caused by excessive purchases. Reference as to who can procure items should be made to the Delegation of Authority Manual.

2- PLACEMENT OF ORDERS

Policy Proper approval should be obtained prior to the establishment of a firm order or contract to purchase. Administrative controls should be established over orders placed.

General Requisitions for purchases should be reviewed to ascertain that the amount of requisition is within the approval Alfaisal University limit. Purchase orders should be made on approved purchase order forms and reviewed for correctness. Approval of the purchase orders per Alfaisal University guidelines should be received prior to establishment of a firm order to contract. Copies of the purchase orders should be filed to allow for timely follow-up on uncompleted orders.

3- TENDERING COMMITTEES

Policy There is to be a term of Reference for Alfaisal University's tender Opening Committees and the methods which it conducts its business.

General This procedure applies to the opening of all Tenders whereas the estimated value is from SR. 50,001 and above. The two committees are the Center Tender Committee (tender values 4 to 200,000) and Limited Tender Committee (200,001+). Both committees shall be established and have a Chairman, Deputy Chairman, Members and Secretary appointed by the Center Director or Managing Director, respectively.

4- SOLE SOURCE PROCUREMENT

Policy To ensure that the Sole Source Procurement of materials and equipment on behalf of the Users Center is executed in the most expeditious manner in order to obtain the specified material / equipment.

General This covers the requests, enquiry development, commercial and technical evaluation and order placement for Sole Source Purchases. It is policy of the University to utilize Sole Source Purchases whenever they are required to obtain material / equipment from a particular manufacturer / supplier. The use of this procedure is to be controlled by the pertinent Centre Director of the University. This procedure is to be utilized only in justifiable circumstances and the Sole Source Authorization Letter must include complete justification. The Centre Director shall prepare a submission to the Purchasing department to be supported with all documents and any purchasing history connected with the commodity and explains in details the reasons for requesting approval from a single source. The Purchasing Department will review the submission and raise recommendation to H.H The Chairman of the Board through the Managing Director.

5- RECEIPT AND ACCEPTANCE

Policy Control should be established over goods and services received as a basis for determining and recording the liability for goods and services received.

General The physical receipt of all purchased goods should be the responsibility of a Purchasing department or designated Center individuals. The receiving function should inspect goods for conformity with specifications on purchase orders. Quantities should be verified by counting, weighing, or measuring. Receipt and acceptance of a shipment should be documented on a receiving report (or on a copy of the purchase order utilized for such purpose) with copies of the receiving reports being routed to the purchasing and Finance departments.

6- ESTABLISHMENT OF ACCOUNTS PAYABLE

Policy All valid accounts payable transactions, and only those transactions, should be accurately recorded as accounts payable.

General The recording of assets or expenses and the related liability should be recorded by employees independent of the ordering and receiving functions. The amounts recorded should be based on vendor invoices for the related goods or services. The vendor invoices should be in agreement with an approved purchase order. Furthermore, evidence or receipt or performance should be in the form of a receiving report or other approved documentation before the vendor invoice can be processed. Invoices and the related general ledger account distribution should be reviewed before recording.

7- RETURN OF GOODS TO SUPPLIERS

Policy Return of goods to suppliers should be adequately controlled, documented, and recorded.

General The return of goods to suppliers should be under a controlled system of procedures. These procedures should include the authorization of the return by the requisitioning Center or purchasing function, preparation of a debit memorandum by the purchasing department, recording of the debit memorandum, and follow-up with supplier to ascertain that the supplier has recognized the return of goods.

8- PURCHASE CUT-OFF

Policy The liability for goods or services should be recorded in the same accounting period in which the goods are received or serviced are provided.

General At the end of accounting period, procedures should be in place to ascertain that the related liabilities for goods or services received during the accounting period are also recorded in the same accounting period.

Section XI

NOTES PAYABLE AND LONG-TERM DEBT
(Including guarantees & letters of credit)

1- FINANCIAL RESOURCE REQUIREMENTS

Policy Alfaisal University should establish an orderly system for anticipating financial resource requirements and analyzing the most effective means of providing for those needs.

General Debt, in the broadest definition of the term, is the result of borrowing funds for a specific purpose for a specific period of time. To date, this type of funding has not been used. It represents one of the two means of providing financial resources for an organization. The other provision of funding from the Founder has been the sole major source of funding, besides fees and donations.

Short-term financing consists of debt that is expected to be repaid within the normal operating cycle of the business or within one year of the balance sheet date and can take the form of a line of credit agreement with a bank or demand notes payable.

Long-term financing is primarily debt that will not be repaid within the normal operating cycle of the business or within one year. This financing, used for longer-term needs such as capital improvements and business expansion, will take the form of installment loans, mortgages, bonds, debentures, and capital leases.

2- ASSUMPTION AND AUTHORIZATION OF DEBT

Policy Determination of the need to assume debt should be made by Alfaisal University officials, and all debt should be appropriately authorized.

General The issuance of all new debt as well as the extension of any existing debt should be authorized by the Board of Trustee or as per the Delegation of Financial Authorities Policy. This authorization should be documented in the minutes of the Board of Trustee meetings in the form of a resolution. In some instances the creditor will require that a board resolution authorizing the debt be included in the executed debt agreement.

3- SAFEKEEPING OF DEBT AGREEMENTS

Policy Physical control of debt instruments should be maintained.

General The original executed debt agreements and debt instruments should be maintained in a safe place and the existence of these instruments should be verified periodically.

4- RECORD OF DEBT

Policy All debt should be recorded in the general ledger based on the terms of the debt agreements.

General The issuance of any new debt or the extension of any existing debt should be accurately recorded in the general ledger based on the terms of the debt agreement that has been reviewed and approved by the Board of Trustee.

5- TIMELY INTEREST EXPENSE ACCRUALS

Policy Interest expense for all debt should be accrued on a timely basis.

General An interest accrual should be recorded at the end of each month for all debt on the general ledger.

6- DEBT PAYMENTS

Policy All payments should be properly recorded in the general ledger on a timely basis.

General Payment on notes payable and other long-term debt made through Alfaisal University's standard disbursements system, through the transfer of funds by wire or other method should be recorded on a timely basis.

7- BOND DISCOUNTS AND PREMIUMS

Policy Bond discounts and premiums should be amortized over the term of the bonds.

General Bonds normally may be issued for a price that differs from the face or maturity value of the bonds. This difference will be either a premium if the sales price is in excess of the face value of the bonds or a discount if the sales price is less than the face value of the bonds. The difference must be amortized over the term of the bonds. The method used to compute the amortization is the interest method. The amortization of a premium will reduce the interest expense while the amortization of a discount will increase the interest expense.

8- CURRENT AND LONG-TERM DEBT

Policy A detailed summary of current and long-term debt, accrued interest payable, and interest expense should be prepared and reconciled to the general ledger.

General To ensure that all debt activity is being properly recorded on a timely basis, a detailed summary of current and long-term debt balances, accrued interest payable, and interest expense should be prepared periodically and reconciled to the general ledger. The detailed summary should be prepared from amortization schedules, statements from creditors, and internally prepared schedules of debt activity.

9- DEBT COVENANTS

Policy All debt covenants should be reviewed periodically.

General In the event that there is a lack of compliance with restrictive debt covenants, a creditor could deem the borrower to be in default of the debt agreement. This in turn could give the credit cause to demand immediate repayment of the debt. With this in mind, the debt covenants should be reviewed annually (or more frequently as the covenants require) so as to determine whether all covenant restrictions have been met. If noncompliance is detected, discussions should begin immediately with the bank or other financial institution in order to avoid foreclosure or recall of the debt.

10- BANK GUARANTEES & LETTERS OF CREDIT

Policy All Bank guarantees and letters of credit authorized by Alfaisal University should be duly prepared and monitored to minimize risk exposure.

General Often contracts of service and acquisition requests require a form of banker guarantee or litter of credit authorized by Alfaisal University to permit the holder to utilize based on non-compliance of the term of performance. This is a form of potential debt. These can be form Alfaisal University to another party using an agreed banker. Likewise, Alfaisal University may receive form another such documents, of referred to as performance bonds. All the previous polices for this section pertain to this type of potential debt.

Section XII

ACCRUED LIABILITIES

1- MONITORING OF ACCRUED LIABILITIES

Policy Alfaisal University should establish a method of monitoring and accounting for accrued liabilities.

General Accrued liabilities, often referred to as accrued expenses or, more simply, accruals, are items for which a service or benefit has been received and for which the related liabilities are both acknowledged and reasonably determinable, but which are not yet payable, either because of the terms of the commitments or because invoices have not yet been received.

2- RECONCILIATIONS AND ACCURACY

Policy Detailed records of accrued liabilities should be reconciled regularly with the control account.

General Reconciliations should be performed to help ensure the accuracy of the detailed records and the control account.

3- ACCRUALS

Policy Increase the accuracy of the financial statements by providing for accruals that are material. This is mandatory at fiscal yearend.

General It is an accounting principle to provide for accruals at fiscal yearend to properly record capital and expenses in the correct fiscal period. It is also common practice, particularly in larger organizations, to record significant accruals during the year, to increase the reliability of the financial performance.

4- COMMITMENT ACCOUNTING

Policy The accounting records and reporting should be maintained so that commitments on goods and services are recorded and reported, where material and desired.

General The "actual" and "budget" components held in accounting systems are obviously vital information sets. However, there is a third vital information set that is available to Alfaisal University - "committed costs". Committed costs are the value of orders raised for which goods/services have not yet been received. Likewise service agreements in place for which a fixed amount or ailing amount is exists.

Reporting committed costs provides financial information earlier than "Budget and Actual" (earlier = better), allowing management more time to make the appropriate decisions.

Section XIII

PAYROLL CYCLE
(Also Refer to Personnel Policies & Procedures)

1- PAYROLL AND HUMAN RESOURCES

Policy A system of authorized communication between the payroll section and the Human Resources department should be established and maintained.

General The Human Resources department maintains employee files in which employee pay history is documented and withholding authorizations are retained. Changes to standing payroll data which is processed by the payroll section, are generally initiated by the personnel/human resources department of each center (e.g., hiring of new employees, authorization for pay rate increases, etc.).

2- WAGES AND SALARIES

Policy Payment for wages and salaries should be made only to Alfaisal University employees at authorized rates of pay.

General Controls should be established over standing payroll data to ensure that the payroll reflects complete and authorized standing data.

3- TIMEKEEPING

Policy Payment for wages and salaries should be made in accordance with records of work performed.

General Controls should be established over the transaction data (time records, output records) to ensure that disbursements of Alfaisal University funds are for valid service performed.

4- PAYROLL CALCULATION

Policy Payments for wages and salaries should be accurately calculated.

General Controls should be established to ensure that the payroll, based on standing and transaction data, is accurately calculated.

5- PAYMENT TO ALFAISAL UNIVERSITY EMPLOYEES

Policy Payments for wages and salaries should be made only to Alfaisal University employees and by direct bank deposit whenever possible.

General Controls should be established to ensure that only valid Alfaisal University employees receive payroll payments.

6- PAYROLL DEDUCTIONS

Policy Payroll deductions should be correctly recorded and paid to the appropriate third parties on a timely basis. Also, related payroll reports to third parties should be submitted on a timely basis.

General Controls should be established to ensure that payroll deductions, both compulsory and voluntary, are adequately identifiable in the general ledger and that the payments to the third parties are timely and accurate.

Section XIV

CAPITAL PROJECTS

1- CAPITAL PROJECT CLOSE-OUT

Policy Completion of a capital project requires careful close-out controls to ensure completion and liability issues are resolved.

General The final payment for goods and services pertaining to a capital project is a very significant event and requires additional controls and checks to ensure that all aspects of the contract have been completed or amended and agreed to, and warranty work is honored.

Section XV

CASH

1- CASH MANAGEMENT POLICIES

Policy Alfaisal University will manage cash to ensure that the University can meet anticipated short and long-term obligations consistent with the following policies:

a) Liquidity policies:

Alfaisal University requires sufficient liquidity in its centers to meet its operations commitments of repayment of our obligations. Liquidity requires a proper Working Capital Management to avoid to sell investments before maturity, and to record a gain or loss on the sale; Alfaisal University will match assets and liability to ensure its capabilities to have a sufficient liquidity.

b) Operating reserves:

Alfaisal University will maintain operating reserves in highly liquid investments or accounts, at a level equal to "e.g. three months" projected operating expenses, at a minimum.

General Effective cash flow management is vital to nonprofits; it is a key element in planning and in the efficient functioning of all aspects of operations. Effective cash management can be "profitable" in and of itself. Cash shortages result in increased costs, such as interest charges on overdraft or loans, late- payments penalties, and loss of vendor discounts for paying bills promptly. Cash flow improvements can eliminate these costs and create the opportunity for more favorable payment terms on some types of purchases. Ultimately, organization that improves the manner in which they receive and expend cash will be more successful.

2- CASH RECEIPTS

Policy Control should be established over all cash and checks received, and they should be deposited promptly in Alfaisal University's bank accounts.

General Cash receipts should be protected from misappropriation. Physical access to cash receipts and cash receipt records should be limited to authorized personnel. Additionally, cash receipts should be recorded in the appropriate period.

PART II

ADMINISTRATIVE POLICIES

1- CONFLICT OF INTEREST

Policy Any actual or potential conflict of interest will not be tolerated & will be immediately eliminated.

General This policy is designed to ensure that each member of Alfaisal University's faculty and staff (hereinafter collectively referred to as the "employee") is aware of certain legal and personal responsibilities arising out of employment at Alfaisal University. The interests of Alfaisal University must be paramount to the interests of employees acting on its behalf. This policy on conflict of interests applies to all employees, so that there will be a uniform standard throughout Alfaisal University. Alfaisal University is inclusive of all Centers.

2- SOLICITATION OF PRIVATE FUNDS

The Public Relations (PR) Department is charged with the responsibility of overseeing all charitable gift activity for Alfaisal University. All Centers must register with this department all major gift prospects before they are solicited.

3- RETENTION OF RECORDS

Records relating to payrolls, receipts and disbursement transactions must be retained for four years after the current fiscal year or until audited, whichever is longer. Such records are usually maintained on inactive file for one year and in storage for three years. External agencies which sponsor grants and contracts may have additional requirements.

4- REPORTING POTENTIAL FRAUD

Policy Upon the discovery of circumstances suggesting a reasonable possibility that a fraudulent transaction has occurred involving funds or property, it is incumbent to notify Alfaisal University.

General If you are aware or suspect that a fraudulent act occurred, you should promptly advise your immediate supervisor of the situation. Your supervisor will contact the appropriate administrative officer in your school or office, who is responsible for reporting the situation to the Human Resources Department and the appropriate Law Enforcement Official. You should document your actions in a memorandum of note.

PART III

CONTROLS FOR THE ACCOUNTING & ADMINISTRATIVE SYSTEMS

1- APPLICATION CONTROLS

Policy Application controls should be applied to ensure the completeness, accuracy, and validity of data.

General Through a combination of both manual and programmed procedures, each application should include a series of control steps to be followed from the onset of a task through its final disposition. For example, if an account number is rejected by a programmed edit check; manual procedures should be in place to ensure follow-up, correction, and resubmission of the item in question.

2- SYSTEM & PROGRAM IMPLEMENTATION

Policy Management should apply controls over system and program implementation to ensure that appropriate procedures are applied to application programs when new systems become operational.

General A well-designed system requires careful planning and coordination between users and data processing personnel. A poorly planned system may result in lack of adequate controls and user satisfaction. There should be adequate involvement by users and data processing personnel during the key stages of design, testing, implementation, and final approval of new systems. Involvement between the user and programmer in developing specifications also ensures that appropriate control features are incorporated into the application. These controls include methods such as run-to-run balancing to ensure completeness and accuracy during processing.

Policies and procedures for the implementation of systems and programs are required so that data is complete and accurate. These standards should be communicated through a Policies and Procedures Manual (see Documentation Index (figure 2-1) for a list of items to be included). The procedures should define the duties and responsibilities of both user and data processing personnel.

3- PROGRAM MAINTENANCE

Policy Maintenance controls should ensure that changes to programmed procedures are designed appropriately and implemented effectively.

General Controls over maintenance focus only on the process that should be followed for program modifications. These controls should include the handling of the request, programming, testing, the approval to move the program into the production environment, and the actual move to production.

4- COMPUTER OPERATIONS

Policy Computer processing should be performed on a consistent basis.

General Computer operations controls ensure that authorized programmed procedures are consistently applied, that correct data files are used, and that processing can be properly resumed in the event of system failures.

5- SECURITY

Policy Access to information stored on a computer should be restricted.

General Management should identify and classify computerized resources (data, Programs, hardware, etc.) And protect them with a well-organized combination of software and manual procedures. Security software provides the ability to restrict access to the system at various levels: system, application, application function, data file, and data element. Adequate security features may be available in the operating system, specialized access security software, or within individual application packages. The latter is usually not as desirable in that it is not always applicable to the entire data processing environment.

6- INTERNET USAGE

Policy Management should apply controls over proper use of Internet.

General Alfaisal University provides access to the vast information resources of the Internet to help employees do their job faster and smarter, and be well-informed business citizen. The facilities to provide that access represent a considerable commitment of Alfaisal University resources for telecommunications, networking, software, storage, etc. This Internet usage guidelines is designed to help the user understand the expectations for the use of those resources in the particular conditions of the Internet, and to help users use those resources wisely.