



Reference: 20190102-9946
File no.: 12/12/2/ P
Enquiries: DD Louw

Circular: 0016/2019
Expiry date: None

To: Deputy Directors-General, Chief Directors, Directors (Head Office and district offices), Deputy Directors, Heads: Management and Governance, Circuit Managers and Principals and Members of governing bodies of public schools

Short summary: *All governing bodies are to ensure that the duties of receiving, receipting and banking of monies received at schools as well as purchasing procedures are segregated.*

Subject: Segregation of duties of receiving, receipting and banking of monies received at school as well as that of purchasing procedures

1. This circular is issued to all governing bodies to highlight the urgent need to segregate the duties of receiving, receipting and banking of monies received at the school as well as that of purchasing procedures and inadequate fraud risk management at school level. Recent news headlines exposed several financial accounting irregularities at public schools. In these cases, embezzlers used their position, their employer's misplaced trust and inadequate fraud risk management to defraud these schools of thousands of rands.
2. The segregation of duties is one of the key remedies for effective internal controls in combating fraud, corruption, financial mismanagement and financial management in an organisation. Segregation of duties is the concept of having more than one person required to complete a task, ensuring that incompatible jobs within a system are not completed by the same person. Segregation of duties is critical for effective internal control because it reduces the risk of mistakes and inappropriate actions. The absence of segregation of duties also places a large burden of trust on a small number of people within a school.
3. The following is a list of minimum internal controls that must be in place in all schools, regardless of size. Please note that this list is not exhaustive. Additional internal controls

should be considered and adapted to the circumstances and operations of the school:

3.1. **Separate financial duties.** Effective internal controls limit any single individual from having control over one or more phases of a financial transaction or operation. Generally, duties should be segregated into four categories: individuals with access to assets; individuals with access to accounting systems and accounting records; individuals in management or control positions; and individuals exercising independent oversight, such as governing body members.

3.1.1 For example:

- (a) An individual who receives cash and issues a receipt for it (access to assets) should not also record the cash deposit in the receipts journal (accounting duties).
- (b) An individual who makes accounting entries (accounting duties) should not be the same person who has cheque signing authority (management duties).
- (c) The bank statement and cancelled cheques should be received and reviewed by someone that is independent of all the steps in the above process (independent oversight).
- (d) The bank deposit should be reviewed and approved by someone other than the employee initiating the bank deposit.
- (e) Initiation and approval (release) of electronic funds transfer (EFT) payments should be segregated between two or more employees.

3.1.2 In this manner, no single individual has too much control and there is oversight for each step in the process. A similar system can be used for the expense cycle. If a school has limited staff, it can still ensure that there is adequate separation by assigning duties to governing body members.

3.2. **Reconcile and examine bank statements monthly.** The school's bank statements must be reconciled on a monthly basis. The monthly reconciliation process must be verified as correct by a person (verifier) other than the finance officer or appointed signatories. The principal only signs off after the process was certified as correct by the verifier. In addition, copies of cheques, wire transfer information and other information relating to deposits and withdrawals should be maintained along with the monthly statement.

3.3. **Adopt cash handling procedures.** Ideally a cash register or multiple-copy receipt book should be used in the collection of cash. With respect to fundraising events or other situations in which the school receives cash, it should arrange for one set of persons to accept, record and count the cash received and another set of persons to verify the cash received. The persons accepting, recording and counting the cash received, should not also be part of those who verified the cash received. The cash with the verification documents must be handed to the finance officer who will proceed with depositing the cash. See the instructions given in paragraph 3.1 above.

It is important that any cash revenues be deposited to the school's bank account as soon as possible, and that management verifies that the amount deposited matches the amount collected.

3.4. **Control the use of credit and debit cards.** Credit and debit cards are convenient, but each authorised user increases the possibility that the cards may be used for improper purchases. If the school uses credit or debit cards, it should limit the number of users and set useful policies regarding their prudent use. Credit card statements, bank statements and supporting documentation should be reviewed monthly by someone who is not on the list of authorised card users. The reviewer should confirm that each charge is supported by a receipt and documentation of the business purpose of the expense.

3.5. **Control the disbursement (payment) process**

3.5.1 All disbursements, whether made by cheque or EFT, should be approved by someone other than the person who physically makes the payment. The approver should confirm that the payment is supported by an appropriate cheque/EFT requisition, invoice and/or purchase order, that the same invoice is not paid more than once and that the stated amount of goods or services were truly received by the school. The school's list of suppliers should be reviewed for reasonableness, duplication, and "ghost suppliers" on a regular basis.

3.5.2 A requestor may not approve their own requisition.

3.5.3 The finance officer may not approve/authorise any expenditure.

3.5.4 A requestor may not sign the cheque or may not authorise payment on EFT.

3.5.5 The capturer of EFT payments may not be the authoriser thereof. There must be at least two persons with unique usernames and passwords who may capture and authorise an Internet banking transaction and/or activity. For example, the capturer of Internet banking payments may not be the authoriser of the same transaction. In this regard, it is imperative that there must be two or more authorisers when doing Internet banking transactions and/or activities. Segregation of duties must be implemented at all levels of Internet banking transactions, i.e. payments, beneficiary updates, limit changes and notifications. The list of types of transactions and/or activities is not exhaustive. Segregation of duties must be ensured in all Internet banking transactions and/or activities. Please ensure that your financial institution (bank) makes provision for two or more authorisers when doing EFT transactions.

3.5.6 Cash expenditures should be avoided where possible.

3.6. **Control the purchasing process.** Purchase requisitions should be reviewed and approved by someone other than the employee initiating the purchase requisitions.

Employees involved in the purchasing process should not be responsible for approving supplier invoices. Instead, this approval should be restricted to the employee who initiated and authorised the purchase requisition or a person independent of the purchasing function. Employees who receive and sign off on goods received from suppliers should not be involved in the purchasing or cash disbursement process.

4. The Western Cape Education Department (WCED) recognises that in some schools the number of administration staff is limited. This often means that segregation of duties can be difficult to achieve and that a number of the above functions will be performed by the same person. While this may not be ideal from an auditing point of view, it is the reality of the situation. However, it can be implemented by alternating sequential tasks so that no one person has complete responsibility for the entire transaction, provided that some separation occurs between key activities. Governing bodies may also consider co-opting individuals with the requisite expertise as volunteers to ensure better internal controls.
5. Kindly ensure that the contents of this circular is brought to the attention of the principal, employees at schools and all governing body members, including the school's auditor.

SIGNED: HA LEWIS
ACTING HEAD: EDUCATION
DATE: 2019-03-30