

ASMADY IDRIS
MOHD SHAUKI MOHD RADZI

Internal Control in the University Governance: A Case Study of the Malaysia University of Sabah

ABSTRACT

Every organization, including the institution of higher learning, has its own vision and objectives to be achieved. However, in running an organization, management cannot avoid unwarranted surprises. Therefore, in reducing these unwanted risks, an organization may rely upon its internal control system. This system is able to help an organization to realize its desired goals and objectives more efficiently. The vision of UMS (Malaysia University of Sabah) is to become an innovative university of the global standing. In realizing this vision, all the academic members of UMS must strive hard to help the university. Apart from strengthening the standard of the quality of academic and research, the recruitment of the academic staff is also crucial. The recruitment of new academic staff must be properly done according to the rules and procedures. The role of internal control must be emphasized in this process. By sharing our experience as the management team, we manage to discuss the process of staff recruitment based on the internal control system in the School of Social Sciences UMS. We found that the internal control is important in choosing the right academic staff for a school or faculty. Five components of internal control must be obeyed in reducing unwarranted risks in the staff recruitment process. We think that the university top management also has given their solid support for the school.

Key words: internal control, institution of higher education, new academic staff, and UMS as innovative and research university.

INTRODUCTION

It is undeniable that internal control system is vital for an autonomous and effective organization to achieve its desired goals and objectives. Internal control keeps an organization on course toward its objectives and the achievement of its mission and minimizes surprises along the way (<http://www.ucop.edu/ctlacct/under-ic.pdf>, 9.10.2009). It facilitates the effectiveness and efficiency of operations, helps ensure the reliability of internal and external reporting, maintains proper financial records, and assists compliance with laws and regulations (<http://www.cg.org.cn/theory/zlyz/turnbull.pdf>, 9.10.2009). It

Associate Professor Dr. Asmady Idris is a Lecturer and Dean at the School of Social Sciences UMS (Malaysia University of Sabah); and **Mohd Shaukhi Mohd Radzi, M.A.** is also a Lecturer at the School of Social Sciences UMS. For academic purposes, they can be reached at: drasmadyi@gmail.com and mdshaukhi@hotmail.com

is also a dynamic integral process that is continuously adapting to the changes an organization is facing. Management and personnel at all levels have to be involved in this process to help the organization. In other words, internal control is an integral process that is effected by an entity's management and personnel and is designed to address risks and to provide reasonable assurance that in pursuit of the entity's mission (<http://intosai.connexcc-hosting.net/blueline/upload/1guiscpubsece.pdf>, 9.10.2009).

THE FUNCTIONING OF INTERNAL CONTROL

In pursuing the mission of an organization, however, all kinds of risks will appear. Internal control can help to address these risks by providing reasonable assurance, but not absolute assurance, about the achievement of the mission and the general objectives. Internal control will not function as an internal auditor. The latter is to help monitor the effectiveness of the former. It will regularly provide information about the functioning of internal control, focusing considerable attention on evaluating the design and operation of internal control. The independence and the objectivity of internal auditor should be guaranteed. This is essential in producing unbiased, correct and honest way to report directly to the highest level of authority within the organization. Therefore, internal audit staff must work independently from management (<http://intosai.connexcc-hosting.net/blueline/upload/1guiscpubsece.pdf>, 9.10.2009).

All staffs of an organization are responsible for managing internal controls. Each and everyone in an organization have some responsibility for internal control. Managers are closely associated with designing, implementing, supervising proper functioning of, maintaining and documenting the internal control system. The tasks of internal auditors, as had been said before, are to examine and contribute to the ongoing effectiveness of the internal control through their evaluations and recommendations. Other staff members contribute to internal control as well. They play a role in effecting control and should be responsible for reporting problems of operations, non-compliance with the code of conduct, or violations of policy (<http://intosai.connexcc-hosting.net/blueline/upload/1guiscpubsece.pdf>, 9.10.2009).

There are five interrelated components of internal control: (1) Control environment, (2) Risk assessment, (3) Control activities, (4) Information and communication, and (5) Monitoring.¹

All these five components have overall influences on how strategy and objectives are established, and control activities are structured. Each of these components will be clarified below:

¹These five components of internal control are directly derived from the approach used by the University of California. See an article entitled "Understanding Internal Controls: A Reference Guide for Managing University Business Practices". Available also at <http://www.ucop.edu/ctlacct/under-ic.pdf> [accessed in Kota Kinabalu, 9 Oktober 2009].

First, control environment is the control consciousness of an organization. It is the atmosphere in which people conduct their activities and carry out their control responsibilities. An effective control environment is an environment where competent people understand their responsibilities, the limits to their authority, and committed to their work. The control environment encompasses technical competence and ethical commitment. Management is responsible for setting the tone for their organization.

Second, risk assessment is the identification and analysis of risks associated with the achievement of operations, finance reporting, and compliance goals and objectives. This, in turn, forms a basis for determining how those risks should be managed. Risk assessment is one of the responsibilities of management and enables management to act proactively in reducing unwanted surprises.

Third, control activities are actions, supported by policies and procedures that, when carried out properly and in a timely manner, manage or reduce risks. Managers are primarily responsible for identifying the financial and compliance risks for their operations. They also have line responsibility for designing, implementing and monitoring their internal control system.

Fourth, information and communication are essential to effecting control; information about an organization's plans, control environment, risks, control activities, and performance must be communicated up, down, and across an organization. Information systems produce reports, containing operational, financial, and compliance-related information that makes it possible to run and control an organization.

Fifth, monitoring is the assessment of internal control performance over time; it is accomplished by ongoing monitoring activities and by separate evaluations of internal control such as self-assessments, peer review, and internal audits. The purpose of monitoring is to determine whether internal control is adequately designed, properly executed, and effective.

INTERNAL CONTROL IN THE UNIVERSITY GOVERNANCE

As it has been discussed before, internal control is significant to help an organization to achieve its desired mission. There is no exception with the institution of higher learning. All public universities in Malaysia, including Malaysia University of Sabah (UMS), should strengthen its internal control system to achieve the desired goals and objectives. According to the University Act 1971, UMS must function as an institution of higher learning that provides tertiary education to the people (*Akta Universiti dan Kolej Universiti* 1971, 23.4.1998). This mission is the responsibility for all employees of UMS to uphold. The Vice-Chancellor, and his or her Deputies, the Registrar, the Treasurer, the Deans, the Lecturers and all the other members must work hand in hand to ensure the achievement of the desired goals.

The vision of UMS is to strive to be an innovative university of global standing (UMS, 2008). This vision may not be achieved if the employees of UMS do not give full support to the university. The management of UMS must

act proactively to take some necessary actions that crucially important for the realization of the vision.

In this paper, we would like to share our management experience as a Dean (Asmady Idris as the first author) and a former Head of Programme of History (Mohd. Shauki Md. Radzi as the co-author) in one of the Schools in UMS. At this moment, I am as the Dean of the School of Social Sciences. Having become the Dean for almost three years, and Mohd. Shauki Md. Radzi as the former of Head of Programme of History, we think it would be better if we can share some valuable experiences in managing a school or a faculty in the university. In our point of view, to help UMS to achieve its vision to become an innovative university, apart from improving the standard of the quality of academic and research, the recruitment of the academic staff is also vital. Management of UMS must apply the right rules and procedures in scholarly recruiting new academic staff where the recruitment should not be merely based on the fulfillment of vacancies.

More careful approach and professional judgement must be applied in this matter. The school should closely work together with the UMS management. This is the role of the internal control where it can help the School and UMS management to make better decisions. Therefore, as the management team of the School of Social Sciences, we would like to share how the internal control system in our School operates in recruiting new academic staff. The recruitment of “committed” academic staff will surely help the university to achieve its vision. The discussion of this issue would be based upon the five interrelated components of internal control, as follows:

A. CONTROL ENVIRONMENT

As the Dean of the School, and the management members, we are fully (in autonomous term) responsible for setting the tone of the objectives of our School. Our School objectives must be in line with the vision of the University. We should make sure that all members of the School of Social Sciences have deep knowledge of these objectives. They must be committed to their tasks and responsibilities given to them.

Therefore, we are also fully responsible in recruiting new academic staff for the School of Social Sciences. The basic principle in recruiting new academic staff is based on the academic qualification and the Programmes (discipline) offered in the School. Before recruiting new academic staff, the management team – which also consists of the heads of the Programmes – would have a thorough discussion. There are six undergraduate Programmes offered in the school which are: Mass Communication; Industrial Relations; Sociology and Anthropology; International Relations; Geography; and History.

The discussion would focus on the academic planning structure of the whole six Programmes. We would like to know, for instance, how many more new academic staffs to be recruited for each Programmes, and what

discipline needs the attention most. We also need to discuss thoroughly, and systematically plan the recruitment of new academic staff.

Once the School received a number of applications, we would seek an opinion from the Heads of the Programmes. Their feedback was important in guiding us and the School management through the recruitment process. The short-listed candidates' names would be submitted to the registrar to call for an interview. Based on our experience, most of the candidates identified by the School would be recruited. This indirectly showed that we controlled the environment for the benefit of the University and the School academic excellence.

B. RISK ASSESSMENT

The School management realized that there will always be risks in recruiting new academic staff. A decision made in hiring a new academic staff is purely on the basis of academic qualification credentials and on the performance of an applicant during the interview session. Therefore, to minimize unwanted surprises, the University normally will hire the successful candidate on a temporary basis. Any non-compliance goals and objectives of the School and the University during this tenure may lead to the immediate termination of a contract.

At the School level, we would propose several necessary actions to be taken proactively. Among other things, we would have an introductory meeting with the new staff to clearly explain the objectives and the main tasks of a lecturer in the University. The new staff would be strongly advised to focus on his or her academic discipline and research interest. He or she should start building his or her own academic strength which had been decided earlier upon the appointment. The school management also would nominate him or her to enroll in a few courses which were required by the University such as the induction course and the teaching and learning course. These two courses are essential to be taken before a confirmation status given to the new academic staff within three years in service.

Furthermore, the new academic staff would be exposed to the School administrative matters. He or she should take an effort to learn and study how the School administration operates. The issue of integrity among academic staff, including the new ones, must be well-preserved. The new staffs must show respect the senior member of the School. They were welcomed to forge good relations with the whole members of the School. If the staff was able to give positive response to this "in-house training", we personally thought that we somehow managed, to some extent, in reducing unwarranted surprises. This is an indication that the School management has made the right choice in recruiting new staff to make the vision of UMS as an innovative university a reality.

C. CONTROL ACTIVITIES

It is true that to prevent unwanted surprises from occurring is a mammoth task for a Dean. Everyday, I am dealing with a lot of different tasks and needs. They can range from approvals, authorizations, verifications, reconciliations, reviews of performance, security of assets, segregation of duties, and to controls over information systems. Working with academic members from different background and strength, especially with the new academic staff, is also not an easy task. Sometimes, due to heavy schedule, I have to authorize the academic members to perform certain activities and to execute certain transactions within limited parameters. Probably, it will not be a big problem for the senior academic members to carry out the task given, but it is definitely a huge burden for the new staff.

Before performing a task, however, the new staffs in particular would be given comprehensive information on the right rules and procedures to be followed. Normally, the School management would inform them about the current performance of budgets, forecasts, access to equipment and other benchmarks to measure the extent to which goals and objectives are being achieved and to identify unexpected results or unusual conditions that require follow-up.

The School management would supervise and control the performance of the new staff. Every tasks and academic activities given would be closely supervised by the Dean and the management. The close supervision and control by the management it did not necessarily mean that we did not fully trust the capability of the new staffs. Rather, it is to ensure that they are on the right track, and more importantly to enable us reducing those unwarranted risks to the School and the University. In other words, the Dean and the School management team are taking preventive control in identifying, for example the financial and compliance risks, which may be caused by these new academic staff. A tight internal control system must be implemented to ensure the objectives of the School and the University is well-preserved.

D. INFORMATION AND COMMUNICATION

Information and communication is one of the key tools in effecting control in the School and the University. The School management must be able to identify, capture, process and communicate the reliable and relevant information to the academic members who need it. Information systems produce reports, containing operational, financial, and compliance-related information that makes it possible for us to run and control our School.

We will make sure that all the academic members, especially the new academic staff, are provided with the input and feedback data that relevant to operations, financial reporting, and compliance objectives which are crucial for the running of day-to-day activities. All these information must be communicated well between the top management and the academic staff. The School management will constantly analyze the source (internal or external

sources) and the timeframe of the information. We need to ensure that our communication and delivery system in the School are effectively functional.

The new academic staff must be alert with all the relevant information on the academic matters. They should know, for instance, the subjects and the number of students that will be taught in a semester. It is a normal practice that, before an academic semester begins, we will ask all the Heads of Programmes to have a meeting with their own members. The Heads of Programmes inform the members on the number of subjects and the students that will register for the academic session. The Programme meeting is important for every members of the School as this is the ideal place where more accurate information can be efficiently communicated to them. The outcomes of the Programme meeting will be endorsed at the academic School committee which is chaired by myself. All the clarification will be done at this committee level. The academic School document then will be submitted to the undergraduate meeting which is headed by the Deputy Vice-Chancellor (Academic and Internationalization).

In short, information and communication are simple concepts. Nevertheless, communicating with people and getting information to people in a form and timeframe that is useful to them is a constant challenge (<http://www.ucop.edu/ctlacct/under-ic.pdf>, 9.10.2009). Therefore, the Dean, and his or her Deputies, the Heads of Programmes, and all academic members are fully responsible in getting reliable information, and to be communicated well among themselves. Senior academic members can share their experience with the new academic staff to make them more efficient in doing their academic activities.

E. MONITORING

Monitoring is the last component of internal control. It is the most vital process in assessing the quality of the recruitment of the academic staff. This is where we know either the recruitment of the new staff is rightly chosen or not (purely based on academic quality standard). Monitoring will be based on the quarterly or yearly assessment of the performance of the academic staff. All academic members will be professionally evaluated by students (students feedback form on their teaching and learning activities), peers, the Deans, and the University management.

In the School of Social Sciences (this is generally applied to other Schools in UMS), the academic staffs will be assessed according to their academic job scope. The scope is teaching and learning, research and consultancy, seminar presentation, publication, and community engagement. The quality of teaching and learning will be monitored, one of the ways, by the School management based on the students feedback form which will be distributed at the end of lectures week. The feedback from students, however, does not fully reflect the quality standard of teaching and learning, but it is an effort to further improve the needs and the process of teaching and learning itself. The new staff will also involve in this process. The quality of their teaching will be fully assessed. The assessment will be based on the students feedback form, and also from the

outcome of the teaching and learning course they must enroll in.

Furthermore, since all public Universities in Malaysia have unanimously agreed to implement Malaysian Qualification Framework (MQF), all academic members will be “academically audited” by this panel. Each and everyone in the School, and the University itself, must comply with the rules and regulations provided by MQF. The curriculum and programme syllabus must be in line with the MQF standard. The new academic staff must be able to cope with this new challenge. Their readiness in quickly adapting to this challenge will convince the School management, and the University that they are worthy enough to be offered a permanent status.

Another important monitoring process in the University is the assessment based on the Annual Work Target (*Sasaran Kerja Tahunan*). All the academic staffs, including the new ones, will be assessed yearly according to this system. The system will comprehensively monitor and assess the performance of the members in the whole academic job scope. Quite often or not, the Dean and the Head of Programme will call each and every members of the School to discuss their performance. The discussion normally will take place, at least, twice in a year (depend on the needs of the academic staff).

The Annual Work Target scheme provides wide opportunities for all staffs to achieve an excellence in their works. Those who are able to outstandingly perform and successfully meet the criteria of excellence in this assessment scheme, they will be rewarded by the University. The new academic staff must take this opportunity to prove that they are fully aware of their responsibility in helping UMS to be an innovative university in the global academic world.

CONCLUSION

Every organization, including the institution of higher learning, has its own vision and objectives to be achieved. We believe that all employees must work hand in hand to help the vision of their organization becomes a reality. However, in running an organization, management cannot avoid unwarranted surprises. Therefore, in reducing these unwanted risks, an organization may rely upon its internal control system. This system is able to help an organization to realize its desired goals and objectives more efficiently.

The vision of UMS is to become an innovative university of the global standing. In realizing this vision, all the academic members of UMS must strive hard to help the university. Apart from strengthening the standard of the quality of academic and research, the recruitment of the academic staff is also crucial. The recruitment of new academic staff must be properly done according to the rules and procedures. The role of internal control must be emphasized in this process.

By sharing our experience as the management team, we manage to discuss the process of staff recruitment based on the internal control system in the School of Social Sciences UMS (Malaysia University of Sabah). We found that the internal control is important in choosing the right academic staff for a school

or faculty. Five components of internal control must be obeyed in reducing unwarranted risks in the staff recruitment process. We think that the university top management also has given their solid support for the school. Hopefully, the vision of UMS will be achieved in the near future.

Bibliography

- Article "Guidelines for Internal Control Standards for the Public Sector" in *INTOSAI*, Belgium. Available also at <http://intosai.connexcc-hosting.net/blueline/upload/1guiscpubsece.pdf> [accessed at Kota Kinabalu, Sabah, Malaysia: 9 October 2009].
- Article "Internal Control: Guidance for Directors on the Combined Code" in The Institute of Chartered Accountants in England & Wales. Available also at <http://www.cg.org.cn/theory/zlyz/turnbull.pdf> [accessed at Kota Kinabalu, Sabah, Malaysia: 9 October 2009].
- Article "Internal Control Program: A Plan for Success" in *The City University of New York*. Available also at <http://portal.cuny.edu/cms/id/cuny/documents/informationpage/000814.htm> [accessed at Kota Kinabalu, Sabah, Malaysia: 9 October 2009].
- Article "Perlembagaan Universiti Malaysia Sabah" in *Akta Universiti dan Kolej Universiti 1971*, Jil.42, No.9. Kota Kinabalu: Penerbit UMS, 23 April 1998.
- Article "The KPMG Review, Internal Control: A Practical Guide" in *Envoy Capital Group Inc.* Available also at http://www.ecgi.org/codes/documents/kpmg_internal_control_practical_guide.pdf [accessed at Kota Kinabalu, Sabah, Malaysia: 9 October 2009].
- Article "Understanding Internal Controls: A Reference Guide for Managing University Business Practices". Available also at <http://www.ucop.edu/ctlacct/under-ic.pdf> [accessed at Kota Kinabalu, Sabah, Malaysia: 9 October 2009].
- Hj. Hashim, Abu Bakar. (2009). "Modul B: Governance of Higher Education". *Paper* presented in the Kursus Penilaian Tahap Kecekapan 6 at the Le Meridien, Kota Kinabalu, Sabah, Malaysia: 16-18 Jun.
- UMS [Universiti Malaysia Sabah]. (2008). *Blazing a Trail for Higher Education in Sabah: The Strategic Plan for Universiti Malaysia Sabah Towards 2020 and Beyond*. Kota Kinabalu: Penerbit UMS [Universiti Malaysia Sabah].



The vision of UMS (Malaysia University of Sabah) is to become an innovative university of the global standing