



PSU FINANCIAL REPORT 2022

Prince Sultan University

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TO OUR STAKEHOLDERS

PSU established an effective financial planning and management control system to sustain the programs and services offered and efficiently managed in keeping with program requirements and institutional priorities. The university also has efficient budgetary and forecasting process, financial delegations and accountability to ensure suppleness, institutional oversight and risk management. Regarding this process, the university prepares annual master budget, annual report and interim report, and engages stakeholders including senior management, faculty members and admin staff. PSU has centralized approach for overseeing the overall budgeting and financial management control system. The economic sustainability of PSU is based upon Strategic Theme 6 of PSU Strategic Plan.

“Financial performance is the key measurement to understanding economic sustainability and contributes for strategic investment to optimize the achievement of PSU mission”



FINANCIAL STATEMENTS SUMMARY

Financial Resources and Budget

The financial planning and budgeting process of PSU involves various stakeholders incorporating a clear and specified delegation of authority. All the Deans, program Chairs, center Directors, administrative unit heads and cost center units submit their budget requirements for the forthcoming academic year. In the case of Colleges, the Office of the Vice President for Administrative and Financial Affairs seeks queries regarding the needs of academics from the colleges and departments and these are reflected in the annual budget. On an annual basis, all academic and administrative units submit their budget requirements for the forthcoming academic year to their administrative head.

Major infrastructure requirements and other projected expenditures are included in the annual budget submission. Other specified requirements in this standard are undertaken at the university administration level in consultation with respective Deans and Directors of Units/Centers. For all major institutional expenditures, proposals are prepared and passed through regular channels of deliberation and evaluation prior to their approval. Once the project/program is approved, the university goes through a process of bidding from at least three different suppliers who are able to offer the best price and quality of product, maintenance and service for the university. One of the strengths of the budgeting process is adopting a flexible budget approach in which immediate needs can be accommodated at any time during the financial year (which indicates the budget is not static and fixed). The Office of the Vice President for Administrative and Financial Affairs prepares this master budget (Annual budget); the university President reviews this budget and then presents it to the Board of Trustees (BOT) for evaluation and approval. The involvement of various stakeholders and systematic process of approval of the annual budget reflects a transparent process.

Financial management is effectively managed in accordance with PSU's strategic plan. The delegation of spending authority is effectively monitored. All IT requirements of the departments are purchased through the ITCS. Normally, three quotations are required and considered before any purchase transaction is made. For all departments of colleges and administrative heads have petty cash ranging from SAR 3,000 to 5,000 (continuous part of budgeting). Minor purchases and other related expenses can be made using this petty cash. Receipts are liquidated to the Accounts Office prior to requesting any new petty cash for the departmental or administrative units' needs. In terms of processing requests for petty cash or any other approved minor purchases, cheques are processed within five to seven working days prior to their release from the Accounting Office. The university has an internal audit system managed by the Auditing Section under the Office of the Vice President for Administrative and Financial Affairs. The Auditing Section provides an audit of daily transactions. Annually, an external auditor from an established accounting firm conducts auditing activities for the university. These processes provide adequate checks and balances of the financial resources of the university. The budgetary process of PSU involves various stakeholders including cost center units. PSU accounting procedures comply with the Saudi Arabian laws and international accounting standards.

Regarding the strength of financial stability and effective financial management, it is noted that PSU is in general a very financially healthy organization when using the Composite Financial Index (CFI) developed by KPMPG which paints a composite picture of overall financial health of private not for profit universities. The Index is based on the values of its four component ratios: Primary Reserve Ratio, Net Income Ratio, Return on Net Assets and Viability Ratio. The CFI scores range from -1 to 10. More recently, Tahey, Salluzzo, Prager, Mezzina, and Cowen (2010, p. 96) argue that the CFI score falls on a scale from 4 to 10. A CFI score of 3.0 is considered the threshold for institutional financial health by the developers of the tool; a score of less than 3.0 suggests the need to address the institution's financial condition; and a score of greater than 3.0 indicates an opportunity for strategic investment to optimize the achievement of institutional mission. Figure 1 shows the Composite Financial Index (CFI Score) of PSU (2012-2022). Figure 2a and Figure 2b also shows the detailed components of Composite Financial Index (CFI) scores for 2021 and Figure 3 presents the PSU Profit/Surplus (SAR) 2012-2022.

Figure 1. Composite Financial Index (CFI Score) of PSU (2012-2021)

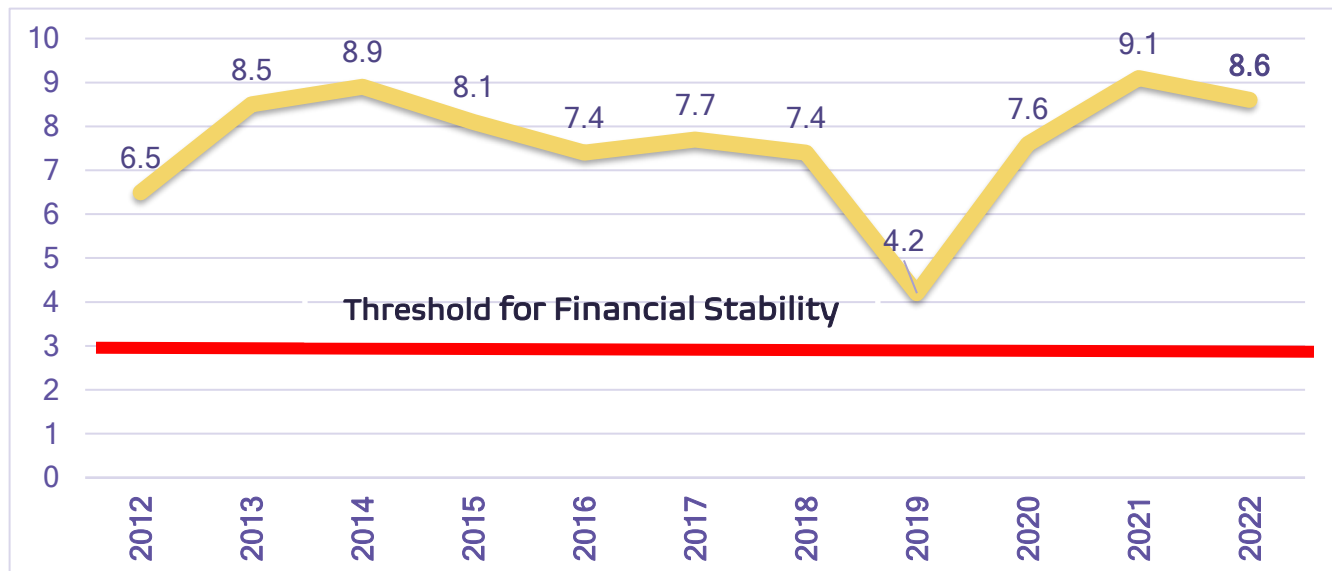


Figure 2a. Composite Financial Index (CFI) scores in 2021 = 9.12

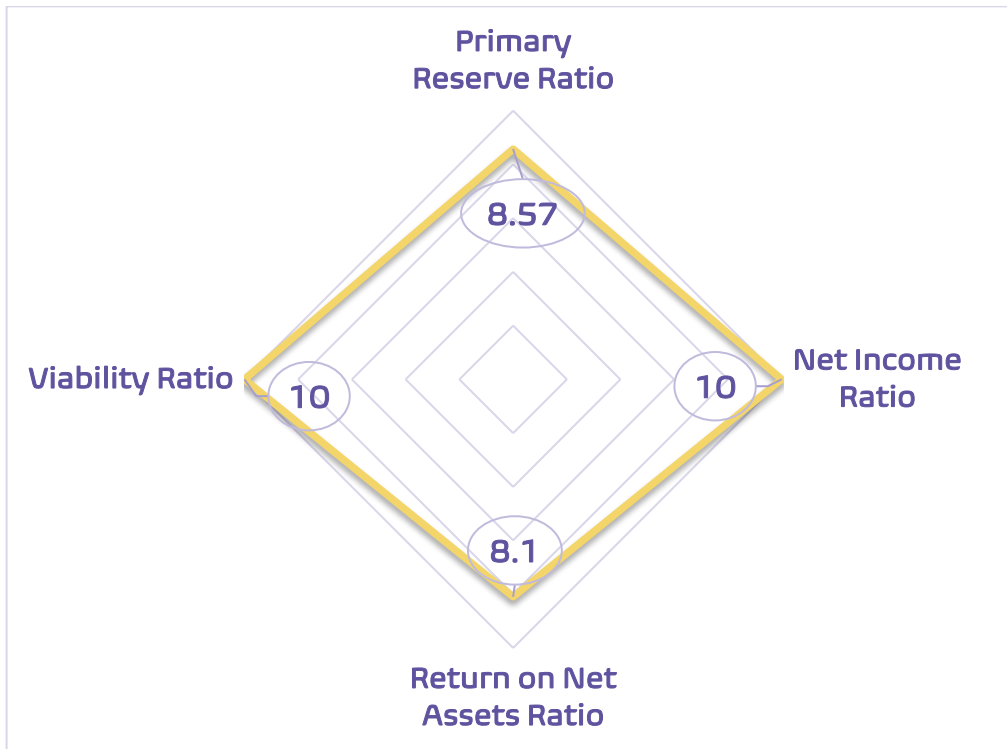
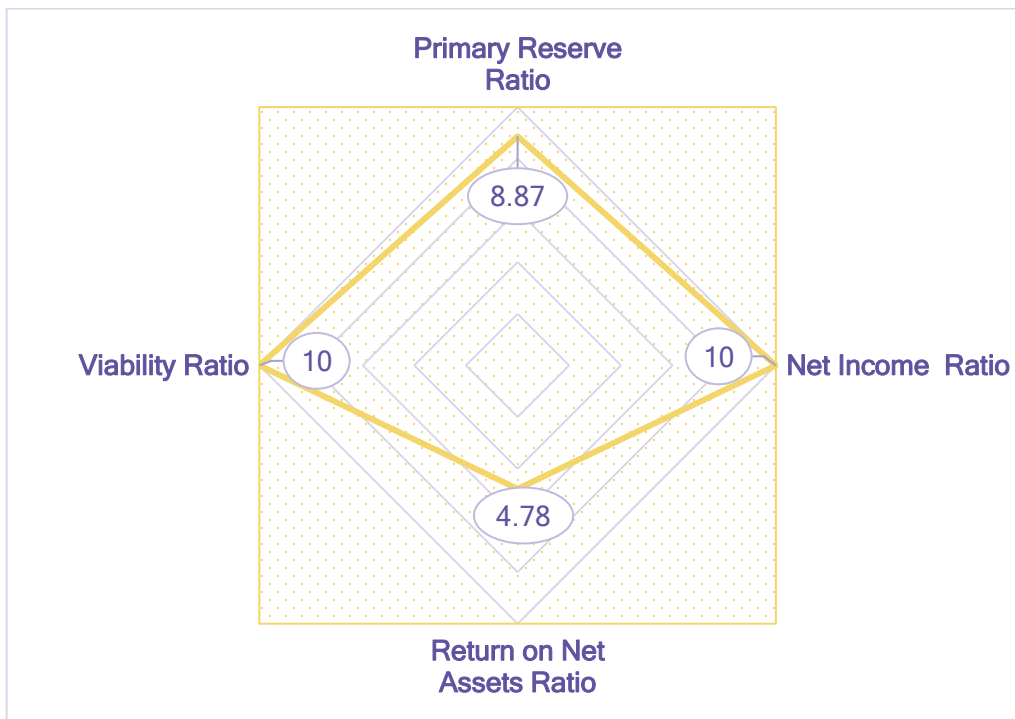


Figure 2b. Composite Financial Index (CFI) scores in 2022 = 8.60



Risk Management

PSU has an internal audit department managed by the Auditing Section under the Office of the Vice Rector for Administrative and Financial Affairs. The external auditor also ensures an effective internal control and risk management of PSU. According to the Sarbanes-Oxley Act 2002 (SOX, Section 404 Guideline, page 3), *'The greater the internal control risk, the more evidence you'll need to support a conclusion that the control is effective'*. The risk management committee is responsible for reviewing the effectiveness of PSU's risk management reporting in each financial year based on information provided by the unit manager. For each significant risk identified, the risk management committee will review the prior year and examine the institution's track record on risk management.

Due to the expansion of the university, PSU recognized broad based risks as *'the threat or opportunity that an action or event will adversely or beneficially affect PSU's ability to achieve its strategic goals and objectives'*. The university's view of acceptable risk is based on a balanced view of all the risks in its operating environment. Risks are prioritized drawing on qualitative and quantitative measures. In doing so, PSU follows Corporate Governance (CG) Framework 2010 issued by the Capital Market Authority, Saudi Arabia (Resolution No. 1/212/2006, dated 21/10/1427AH (corresponding to 12/11/2006; based on the Capital Market Law issued by Royal Decree No. M/30 dated 2/6/1424AH; amended in 2010). The CG framework entails *'Ensuring the implementation of control procedures appropriate for risk management by forecasting the risks that the company could encounter and disclosing them with transparency'* (page 11 of the Law). Three types of risks will be identified:

- Academic Risks
- Financial Risks
- Other Risks

The process of risk management of PSU is shown in Figure 5:

Figure 5. Risk Management Process of PSU



Risks are assessed using two elements: the likelihood/probability of occurrence and impact of the risk occurrence. Each element is assessed on a 3-point scale.




Likelihood/Probability: How likely is it that the risk going to happen?:Low – Likelihood of occurrence is relatively slim (<20% chance of occurrence). Medium – Quite possible that the risk could occur especially if control measures are inadequate (20% - 60% chance of occurrence). High – More likely to happen (>60% chance of occurrence)

Impact: What would the impact be if the risk was to crystallize? Low – Unlikely to have a significant effect. Medium– Potential impact on performance and service and may be adequately managed through existing processes. High– Severe impact on performance.

Risk Level Determination (Overall Risk Score):3x3 matrix used to calculate the overall risk score:

IMPACT	3	3	6	9
	High	(Low likelihood & High impact)	(Medium likelihood & High impact)	(High likelihood & High impact)
	2	2	4	6
	Medium	(Low likelihood & Medium impact)	(Medium likelihood & Medium impact)	(High likelihood & Medium impact)
	1	1	2	3
	Low	(Low likelihood & Low impact)	(Medium likelihood & Low impact)	(High likelihood & Low impact)
		1 - Low	2 - Medium	3 - High
	LIKELIHOOD/PROBABILITY			

Overall Risk Score (in color) and Risk Level

Color	Overall Risk Score	Risk Level	Action
	6 – 9	High	High priority remedial action
	3 - 4	Medium	Medium priority remedial action
	1 – 2	Low	Risk acceptable; There are no imminent dangers

CRISIS MANAGEMENT FRAMEWORK

Crisis could be defined as “a sudden event or series of events that may seriously threatens the operations of PSU”. PSU will act proactively in identifying and managing ‘crisis’ that may have the potential to threaten the PSU community. The Crisis Management & Response Management Team (CMRMT) will determine the classification of crisis incident. In compliance with PSU and Saudi Ministry Policies/guidelines, the CMRMT will then communicate with PSU communities and take appropriate actions to overcome the crisis that has the potential threat on operations and activities of PSU.

Following an emergency or crisis, the CMRMT of university will then evaluate the action plans and its impact and incorporate its continuous risk management and crisis management policies. Following the crisis and evaluation of response to crisis, PSU, may update other relevant policies and provide regular, tailored training for managing the crisis.

Crisis Management Framework of PSU



Crisis Incident classification:

- Level 1 – Minor (low impact)
- Level 2 – Moderate (potential to escalate)
- Level 3 – Major/catastrophic

Crisis Management & Response Management Team (CMRMT): The University Senior Management Team in relation to a crisis event will priorities safety of students, faculties, staff and affected PSU community.

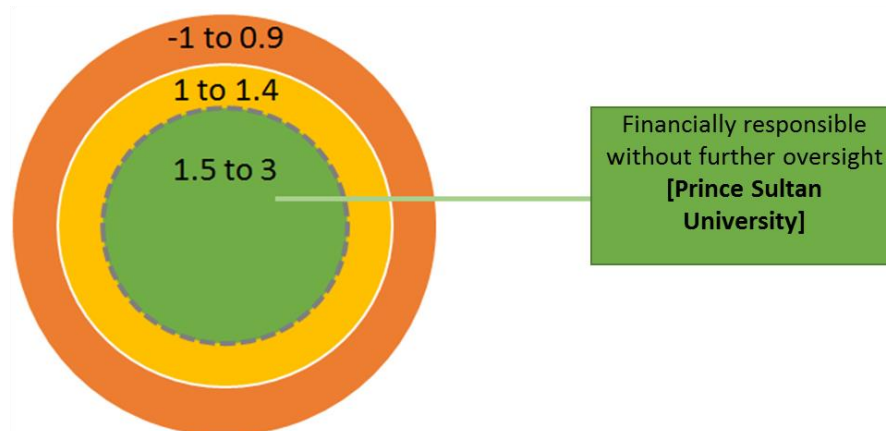
Financial Responsibility Composite Scores (FRCS)

In the USA, the Higher Education Act of 1965 (Section 498(c)), requires for-profit and non-profit institutions to annually submit audited financial statements to the Department to demonstrate they are maintaining the standards of financial responsibility necessary to participate in the Title IV programs. The Financial Responsibility Composite Score (FRCS) is one of the major standards, which the Department of Education utilizes to gauge the financial responsibility of an institution and is a composite of three ratios derived from an institution's audited financial statements (Source: Section 3: Calculating the Composite Score Step 1: Calculate the strength factor score for each ratio, by using the following algorithms Example (for Private Non-Profit Institutions); Part 668: Student Assistance General Provisions, Ratio Methodology for Private Non-Profit Institutions, p. 148, <https://www.ifap.ed.gov/regcomps/attachments/668.pdf>).

The three ratios are a primary reserve ratio, an equity ratio, and a net income ratio. These ratios gauge the fundamental elements of the financial health of an institution; not the educational quality of an institution. The composite score reflects the overall relative financial health of institutions along a scale from - 1.0 to positive 3.0. A score greater than or equal to 1.5 indicates the institution is considered financially responsible. A score less than 1.0 is considered not financially responsible and typically requires that the school be subject to cash monitoring requirements” (see Figure 6).

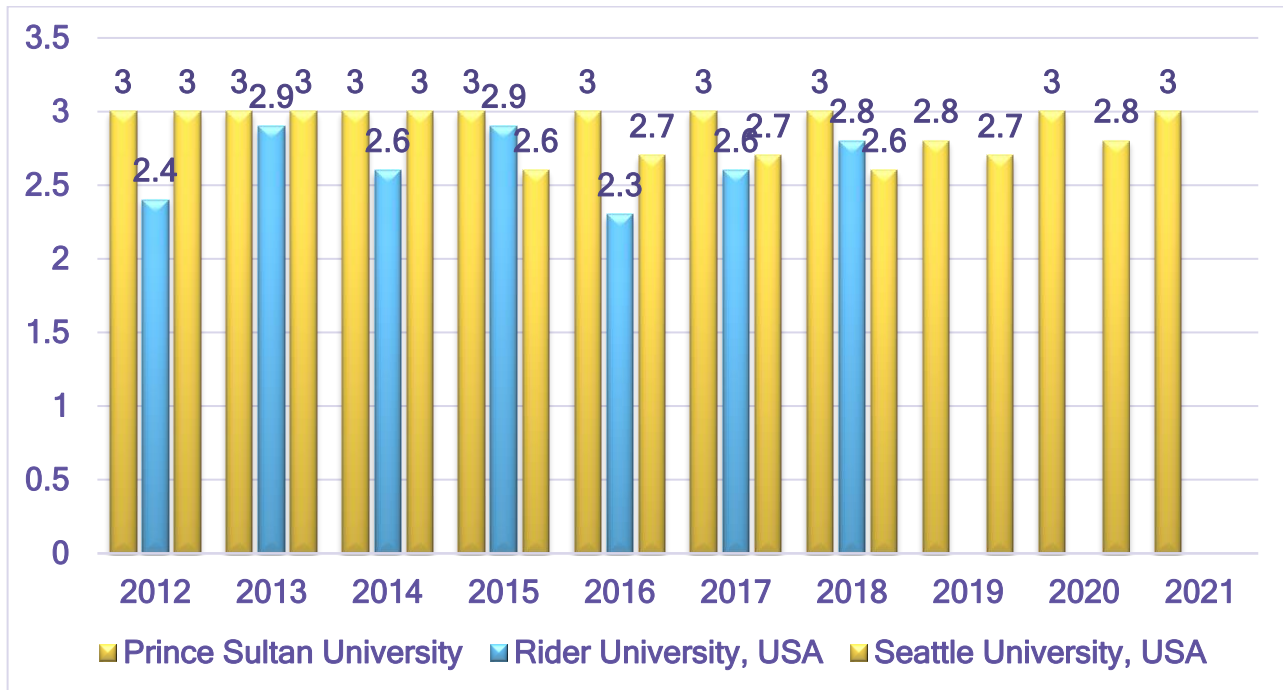
- 1.5 to 3.0 Financially responsible without further oversight.
- 1.0 to 1.4 In the “Zone.” The university is considered financially responsible but additional oversight is required.
- 1.0 to .9 Not financially responsible.

Figure 6. Financial Responsibility Composite Scores Range



For PSU, for the last 10 years, a score is consistently above 1.5 (achieved the highest score of 3) which indicates significant financial health of an institution (see Figure 6).

Figure 7. Financial Responsibility Composite Scores (FRCS) 2012-22



Note: Data is not available for Rider university 2019-2022 and for Seattle University for 2022

INDEPENDENT AUDITOR'S REPORT



الشلاحي محاسبون قانونيون
AlShalahy Chartered Accountants

**INDEPENDENT AUDITORS' REPORT
TO THE BOARD OF TRUSTEES OF PRINCE SULTAN UNIVERSITY
(AFFILIATED TO THE RIYADH PHILANTHROPIC SOCIETY FOR SCIENCE)
(A NON-PROFIT INSTITUTION)**

Opinion:

We have audited the financial statements of Prince Sultan University (Affiliated To The Riyadh Philanthropic Society for Science) (A Non-Profit Institution) (the "University"), which comprise the statement of financial position as at 31 August 2022, and statement of revenue and expenditures, statement of cash flows and statement of general Riyadh Philanthropic Society for Science fund for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the University as at 31 August 2022, and its financial performance and its cash flows for the year then ended in accordance with Non-profit organization standards that are endorsed by Saudi Organization for Chartered and Professional Accountants. Besides Small and Medium-sized Entities that is endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements that are endorsed by Saudi Organization for Chartered and Professional Accountants.

Basis for Opinion

we conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report, We are independent of the University in accordance with professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements, We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Non-profit organization standards that are endorsed by Saudi Organization for Chartered and Professional Accountants. Besides Small and Medium-sized Entities that is endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements that are endorsed by Saudi Organization for Chartered and Professional Accountants., and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the University 's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the University or to cease operations, or has no realistic alternative but to do so.

Management is responsible for overseeing the University 's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists.



AlShalahy Chartered Accountants

INDEPENDENT AUDITORS' REPORT (continued)
TO THE BOARD OF TRUSTEES OF PRINCE SULTAN UNIVERSITY
(AFFILIATED TO THE RIYADH PHILANTHROPIC SOCIETY FOR SCIENCE)
(A NON-PROFIT INSTITUTION)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We are also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the University's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the University to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Khaled Alshalahy
Certified Public Accountant
Registration No (538)

Riyadh: 28 Rabi' al-Awal 1444 H
 (24 October 2022)

