



VARZA SCHOOL · THE FOUNDATIONAL 100

# Build the Financial System before the Problems: Roles, Policies, Approval, and Accountability

Chapter 20 · Track 2 — Starting and Understanding a Business

## THE QUESTION IT ANSWERS

What minimum financial governance should exist before transaction volume and organizational complexity make informal trust unsafe?

## CONCEPTS DEFINED

Role · Policy · Approval · Accountability · Segregation of duties · Internal control · Audit trail · Compliance

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**Varza promise:** clear enough for a first-time learner, exact enough for a professional conversation, and practical enough to support a real decision.

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## Why this chapter matters

This track moves from personal decisions to an operating business. A business is examined as a repeatable system that creates value, coordinates people and resources, accepts risk, collects evidence, and converts activity into cash and durable capability.

**Central question:** What minimum financial governance should exist before transaction volume and organizational complexity make informal trust unsafe?

A financial system is the combination of people, authority, policy, evidence, workflow, records, controls, review, and response. Good design allows ordinary low-risk work to flow while making material, unusual, or conflicting actions visible and accountable.

Varza approaches the subject from life to ledger and from ledger to decision. We begin with what actually happened, identify the rights, obligations, resources, timing, and uncertainty, and only then choose the correct term, calculation, document, or account. This order protects the learner from a common error: learning a label without understanding the economic reality that the label is supposed to describe.

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## Learning outcomes

- Define and distinguish role in plain and professional language.
- Define and distinguish policy in plain and professional language.
- Define and distinguish approval in plain and professional language.
- Define and distinguish accountability in plain and professional language.
- Apply the concepts to a numerical case and explain the result rather than only calculate it.
- Identify evidence, workflow, controls, and Varza entities required for reliable use.
- Recognize when jurisdiction-specific or licensed professional advice is required.

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## The Varza mental model

A financial concept becomes decision-ready when six questions have answers: **what, who, when, how much, based on what evidence**, and **under which assumption or rule**. A seventh question—**what should happen next**—turns knowledge into management.

This chapter uses internationally recognized terminology, but it remains jurisdiction-neutral unless explicitly stated. Accounting standards, tax rules, contract law, consumer protection, labor requirements, and investment regulation can produce different legal outcomes in different countries. The global foundation gives the learner a stable map; local collections must add the binding rules.

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## Core concepts

### 1. Role

**Working definition.** Role is a defined set of responsibilities, decision rights, access permissions, and expected outputs assigned to a person or position.

Clear roles reduce both omission and hidden authority. System permissions should follow the minimum access needed to perform the responsibility. A non-specialist can understand this by separating the object, the timing, and the consequence.

**Simple example.** A sales clerk can prepare a credit note, but a manager must approve it above a threshold.

**Decision test.** Who can influence the result, and who only reports it? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

### 2. Policy

**Working definition.** Policy is a formally approved principle or rule that guides recurring decisions within defined boundaries.

A policy should explain purpose, scope, owner, exceptions, evidence, and consequences. It should be translated into workflow and validation, not remain an isolated document. The concept should be measured at the smallest level that still supports a real action.

**Simple example.** A customer-credit policy sets information requirements, limits, review frequency, and escalation rules.

**Decision test.** Does the item affect cash now, later, or not at all? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

### 3. Approval

**Working definition.** Approval is an accountable decision authorizing a proposed action after required evidence and conditions have been reviewed.

Approval is not a decorative click. The approver needs authority, information, independence where relevant, and a recorded basis. The number alone is not enough; its definition determines whether comparisons are valid.

**Simple example.** A purchase order above CU 25,000 requires finance and operating approval before commitment.

**Decision test.** What is being measured, and what has been left outside the boundary? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

## 4. Accountability

**Working definition.** Accountability is the obligation to explain and accept responsibility for decisions, actions, controls, and results.

Responsibility without information is unfair; authority without accountability is dangerous. Varza should connect each material state change to an identifiable actor. This is where operational activity and financial reporting meet.

**Simple example.** The project manager owns the latest cost forecast and must explain material changes.

**Decision test.** When did the underlying right, obligation, benefit, or sacrifice arise? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

## 5. Segregation of duties

**Working definition.** Segregation of duties is the separation of incompatible responsibilities so that one person cannot initiate, authorize, execute, record, and conceal the same material transaction.

Where staffing is limited, use compensating review, system logs, limits, and owner oversight rather than pretending full separation exists. In Varza language, the concept becomes useful when it changes a decision.

**Simple example.** The employee who creates a supplier should not also approve and release the first payment without independent review.

**Decision test.** Which document or observation would allow another person to verify it? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

## 6. Internal control

**Working definition.** Internal control is a process designed and operated by governance, management, and personnel to provide reasonable assurance over operations, reporting, and compliance objectives.

Controls reduce risk; they do not eliminate it. Design must consider people, process, technology, incentives, override, and monitoring. The professional term matters because it prevents two different realities from being recorded as though they were the same.

**Simple example.** Purchase approval, three-way matching, access restriction, and reconciliation work together rather than as isolated checks.

**Decision test.** How would a different assumption change the result? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

## 7. Audit trail

**Working definition.** Audit trail is the chronological and relational evidence that allows a reported amount or system state to be traced back to authorization, source, calculation, and subsequent changes.

An audit trail should show who did what, when, under which authority, and what existed before the change. A non-specialist can understand this by separating the object, the timing, and the consequence.

**Simple example.** A credit note retains the original invoice link, reason, approver, affected stock, tax adjustment, and posting.

**Decision test.** Who can influence the result, and who only reports it? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

## 8. Compliance

**Working definition.** Compliance is conformity with applicable laws, regulations, contracts, standards, licenses, policies, and ethical requirements.

Compliance is a living system of obligations, owners, evidence, monitoring, and response—not a one-time checklist. The concept should be measured at the smallest level that still supports a real action.

**Simple example.** A payroll process verifies labor, tax, privacy, payment, and record requirements before release.

**Decision test.** Does the item affect cash now, later, or not at all? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

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## How the concepts connect

The concepts in this chapter are a system, not a vocabulary list. Role, Policy, Approval, Accountability, Segregation of duties, Internal control, Audit trail, and Compliance describe different parts of the same decision. Confusing them usually creates one of three failures: the wrong amount is measured, the right amount is assigned to the wrong period or person, or a correct report is used for a decision it was never designed to support.

A useful analysis therefore preserves both **classification** and **relationship**. Classification tells us what an item is. Relationship tells us what caused it, what it affects, and what could change it. Varza should store both. A report that shows only totals may be suitable for orientation; a controlled decision requires traceability to the underlying relationships.

## Formulas and quantitative relationships

### Residual risk

Residual risk = Inherent risk adjusted for the design and operation of controls

The expression is conceptual: controls reduce probability or impact but rarely reduce risk to zero.

**Boundary:** Risk assessment is judgmental and should not imply mathematical precision without a defined model.

### Worked case — A small company with one dangerous payment path

A ten-person company allows the same finance employee to create suppliers, enter invoices, approve them, and upload bank payments.

| Item               | Amount or observation                  |
|--------------------|----------------------------------------|
| Transaction volume | 250 supplier invoices per month        |
| Current access     | one employee controls all stages       |
| Owner review       | bank balance reviewed monthly          |
| Key risk           | fictitious or altered supplier payment |
| Constraint         | small team                             |

### Calculation and reasoning

1. Separate supplier creation and bank-detail change from invoice processing through owner or manager verification.
2. Require purchase or service evidence and risk-based approval before payment.
3. Use bank dual authorization for payment batches above a threshold.
4. Generate a weekly new-supplier and changed-bank-details report and independently contact suppliers through known information.
5. Retain an immutable log and review unusual overrides.

### What the result means

A small team may not achieve perfect segregation, but it can prevent one person from completing and concealing the entire fraud path. Practical compensating controls are stronger than a policy that assumes trust is enough.

The case is deliberately compact. In practice, Varza would preserve the supporting documents, currency, dates, counterparty, project or cost center, approvals, and links to the resulting records. The lesson is not merely to reach a number; it is to make the path to that number reviewable.

## Practical workflow

1. **Define the decision, responsible person, economic unit, period, and acceptable uncertainty.**  
Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
2. **Map material processes from initiation to authorization, execution, custody, recording, and review.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
3. **Identify incompatible duties, likely errors, fraud opportunities, and management override.**  
Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
4. **Define policies, thresholds, evidence, and exception routes.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
5. **Configure permissions and approval paths, then test whether controls actually operate.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
6. **Reconcile the result to source evidence and investigate exceptions rather than forcing agreement.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
7. **Approve the decision or record at the authority level required by value, risk, and legal consequence.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
8. **Monitor the outcome, compare it with the original assumption, and retain the learning for the next cycle.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.

## How this concept should appear in Varza

The minimum Varza data model for this chapter includes user, role, permission, policy, approval\_matrix, workflow, exception, audit\_log, control\_test, accountability\_record. These names are not merely interface labels. Each entity should have a stable identifier, status history, responsible owner, applicable currency or unit, effective dates, evidence links, and access controls.

A useful Varza screen should answer four questions without forcing the user to reconstruct the story manually:

1. **What happened or is expected to happen?** Show the operational event, obligation, or decision in plain language.
2. **What changed financially?** Show cash, asset, liability, equity, income, expense, commitment, or risk effects.

3. **Why should the user trust it?** Show source documents, calculations, approvals, and revision history.
4. **What requires attention now?** Show exceptions, due dates, thresholds, and the next responsible action.

The Varza design principles most relevant here are:

- Attach every important number to a source, period, currency, entity, and responsible person.
- Prefer a traceable estimate with stated assumptions to an impressive number with hidden assumptions.
- Use automation to strengthen evidence and consistency, never to remove accountability.

Varza AI may explain, classify, compare, simulate, and prepare a proposed action. It should not silently change a legal record, post a material transaction, close a period, release a payment, or make an investment decision on the user's behalf. Material actions require visible evidence, permissions, validation rules, and an accountable human approval path.

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## Controls and professional boundaries

1. **No shared user accounts for material financial activity.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
2. **Independent verification of bank and master-data changes.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
3. **Periodic access review and control testing.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
4. **Visible management-override log reviewed by governance.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
5. **Stable definitions, versioned assumptions, and consistent units across plans, records, and reports.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
6. **Traceability from every material total to evidence, calculation, owner, and change history.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
7. **Access and approval rights aligned with responsibility and the possible consequence of error or misuse.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.

A control is effective only when it operates in practice. A policy that everyone can bypass is a statement of hope, not a control. Likewise, a control that blocks ordinary work without distinguishing

low-risk and high-risk cases encourages hidden workarounds.

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## Common mistakes and better responses

### Mistake 1: Believing trusted people do not need controls

**Better response.** Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

### Mistake 2: Creating so many approvals that users build workarounds

**Better response.** Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

### Mistake 3: Giving system administrators unrestricted business authority

**Better response.** Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

### Mistake 4: Treating an approval click as evidence that the approver understood the transaction

**Better response.** Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

### Mistake 5: Using a technically correct number outside the period, entity, currency, or decision boundary for which it was calculated

**Better response.** Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

### Mistake 6: Accepting an automated result without reviewing the evidence, assumptions, exceptions, and required professional judgment

**Better response.** Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

## Decision checklist

- ☐ Can I explain role in plain language and in professional terms?
- ☐ Can I explain policy in plain language and in professional terms?
- ☐ Can I explain approval in plain language and in professional terms?
- ☐ Can I explain accountability in plain language and in professional terms?
- ☐ Have I stated the entity, currency or unit, date or period, and decision boundary?
- ☐ Can another person reproduce the number from retained evidence?
- ☐ Have I separated actuals, estimates, commitments, and scenarios?
- ☐ Have I tested timing, liquidity, risk, and at least one adverse outcome?
- ☐ Is the required approval proportional to the possible loss or legal consequence?
- ☐ Does the final output lead to a specific action, owner, and review date?

## Practice lab

1. **Explain it.** Describe Role to a person who has never studied finance. Then add the professional definition and identify one boundary your simple explanation omitted.
2. **Classify it.** Create five examples from your household or a small business and classify each using Policy. State any assumptions.
3. **Calculate it.** Rebuild the worked case with amounts 20% higher. Identify which conclusions change and which remain structurally true.
4. **Challenge it.** Describe a situation in which Approval could be measured correctly but still lead to a poor decision because timing, risk, or incentives were ignored.
5. **Design it.** Sketch a Varza screen or report for this chapter. Include fields, evidence links, status, owner, exceptions, and one AI-assisted action.

## Answer guidance

A strong answer uses consistent definitions, reveals assumptions, distinguishes fact from estimate, and connects the result to an action. More than one conclusion may be reasonable when the learner clearly states the decision objective and uncertainty. The worked-case recalculation should preserve the method even when the numbers change.

## Varza AI knowledge capsule

This capsule is intentionally explicit so that a retrieval system can distinguish canonical teaching points from examples and commentary.

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    "Approval: an accountable decision authorizing a proposed action after required evidence and conditions have been reviewed.",
    "Accountability: the obligation to explain and accept responsibility for decisions, actions, controls, and results.",
    "Segregation of duties: the separation of incompatible responsibilities so that one person cannot initiate, authorize, execute, record, and conceal the same material transaction.",
    "Internal control: a process designed and operated by governance, management, and personnel to provide reasonable assurance over operations, reporting, and compliance objectives.",
    "Audit trail: the chronological and relational evidence that allows a reported amount or system state to be traced back to authorization, source, calculation, and subsequent changes.",
    "Compliance: conformity with applicable laws, regulations, contracts, standards, licenses, policies, and ethical requirements."
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## Suggested questions for Varza AI

- Explain this chapter using an example from a household, a shop, and a service business.
- Ask me five diagnostic questions before applying this concept to my situation.
- Show the difference between cash effect, accounting effect, and decision effect.
- Recalculate the worked case using my currency and assumptions, but preserve the original definitions.
- Identify which parts require local accounting, tax, legal, labor, or investment rules.

## Sources and standards horizon

This chapter is original Varza educational content. It paraphrases and synthesizes concepts; it does not reproduce a standard or third-party article. The following sources were used to establish terminology, scope, and current professional context:

- **S009 — U.S. Small Business Administration, *Manage your business*.** accessed 2026-08-31. Ongoing compliance and financial management. Source: <https://www.sba.gov/counseling/manage-your-business/>
- **S201 — International Ethics Standards Board for Accountants, *2025 Handbook of the International Code of Ethics for Professional Accountants*.** 2025-10-07. Integrity, objectivity, competence, confidentiality and professional behavior. Source: <https://www.ethicsboard.org/publications/2025-handbook-international-code-ethics-professional-accountants>
- **S203 — Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control —Integrated Framework*.** 2013 framework; accessed 2026-08-31. Control environment, risk assessment, control activities, information and monitoring. Source: <https://www.coso.org/internal-control>
- **S204 — International Auditing and Assurance Standards Board, *ISA 315 (Revised 2019)*.** 2019; accessed 2026-08-31. Understanding systems and identifying risks of material misstatement. Source: <https://www.iaasb.org/publications/isa-315-revised-2019-identifying-and-assessing-risks-material-misstatement>
- **S205 — International Auditing and Assurance Standards Board, *ISA 240 (Revised)*.** 2025-07-08. Fraud lens, risk response and transparency in audits. Source: <https://www.iaasb.org/publications/isa-240-revised-auditor-s-responsibilities-relating-fraud-audit-financial-statements>

**Standards horizon.** Reviewed through 2026-08-31. IFRS 18 and the third edition of the IFRS for SMEs Accounting Standard are included as transition knowledge where relevant; both have mandatory effective dates beginning in 2027, with early application permitted under their respective requirements.

**Jurisdiction note.** Global educational foundation; local law, tax, reporting, consumer-protection, licensing, and professional requirements must be checked separately.

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