

Internal Controls



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Internal Controls

- Internal controls are processes designed to prevent fraud and error
- Important part of good financial management – not relying on trusting our coworkers exclusively, but implementing processes that will prevent fraud and error
- Internal controls protect the organization but also employees and leaders
- Internal controls can be at the entire organization level or specific for a department. Department managers can set up controls in their departments



Internal Controls – Continued

- Auditors examine internal controls as a part of the audit and recommend improvements in the audit management letter
- Strong internal controls = strong organization and leadership
- When designing internal controls, need to think “like a criminal” – in what areas and how can fraud happen?
- Internal controls checklist:



Controls for Expenses and Payments

1. Cheque requisitions signed for approval by program supervisor
2. Dual signatures on cheques, when sign cheques review and initial the supporting bill and/or cheque requisition
3. Pre-signed cheques aren't a good idea, if you have to use them, review issued cheques at the back of bank statements monthly
4. Second person approval for electronic payments
5. Monthly bank reconciliations
6. Monthly credit card statements review and reconciliation
7. Budget vs. actual financial statements review



Controls for Assets

1. Physical security for assets that can be moved easily such as building materials
2. Cash is counted at the beginning and end of day by two employees and kept in a locked safe. Bank deposits are made regularly
3. Inventory write offs authorized by management
4. Blank cheques are locked in a secure location



Financial Controls for Revenue

1. Minimize cash transactions; cash is counted and reconciled to sales reports daily; issue receipts for all cash revenue
2. Review funding received against reports from ISC and other funders
3. Make sure reporting required by contribution agreements is done on a timely basis to avoid funding halts
4. Segregation of duties – staff receiving cash or cheques can't be responsible for updating revenue and bank records
5. Budget to actual reports review



Financial Controls for Payroll

1. Set up a hiring approval process including position posting, interviewing and selecting candidates. Consider conflict of interest
2. Prepare employment agreements and document raises
3. Staff sign employee manual
4. Call labour board and band lawyer with any contentious employment issues – to avoid wrongful dismissal costs
5. Payroll review by program managers
- 6.
7. Budget vs. actual reports review



Financial Controls for Leadership

1. Conflict of interest policy
2. Finance and investment committee with independent members (elected leaders can't be the majority)
3. Policy for making major decisions (investments and loans) requiring an independent review by two professionals (accountant and lawyer) and an approval by the finance committee
4. Policies are only as strong as the leadership's commitment to follow them

Practical Application for First Nations Finance

Thank you for your time



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