

Internal Control

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I. What is internal control?

- **Internal control is a process, effected by an organization BoD, Mgt, and other personnel, designed to provide reasonable assurance that the objectives will be met with regards to:**
 - **Accuracy and reliability of financial reporting;**
 - **Effectiveness and efficiency of operation; and**
 - **Compliance with applicable policies, laws, and regulations**

Key concepts of control:

- **Control is a process. It is a “means” to an end, and is not an “end” in itself.**
- **Control is expected to provide only reasonable assurance, not absolute assurance**
- **Control is effected by people**

2. Internal Control framework

- The internal control framework comprises the control environment and control procedures.
- **Control environment:** the overall context of control, in particular the culture, infrastructure, and architecture of control and attitude of directors and manager towards control.
- **Control procedures:** The details policies and procedures. Which includes finance, HR, IT, Admin, Procurement, Grants, and other policies.....

3. Main Types of internal controls

- **Segregation of duties**
- **Physical control**
- **Authorization and Approval**
- **Accounting system and Procedures**
- **Policies and procedures**
- **Independent reviews**
- **Personnel**

4. What are good controls?

- **Proper Segregation of duties in place**
- **Competent, trustworthy staff with clear line of authorities and responsibility**
- **Proper procedures for authorization (LOA)**
- **Sound accounting system and procedures**
- **Proper policies and procedures**
- **Perform regular and independent reviews**
- **Physical control over assets and records**

5. Benefits of internal controls

- **Fulfillment: Meeting the objectives**
- **3Es- Effectiveness, Efficiency and Economy**
- **No Surprise**
- **Stewards of the fund given**
- **Accountable for the funds entrusted**
- **Transparent**
- **Compliance**

6. Limitation of control

- **The cost of control not outweighing their benefits**
- **The potential for human error or fraud**
- **Collusion between employees**
- **The possibility of controls being by-passed or overridden by the management**
- **Could not cope with non-routine transactions**

7. Whose Duty to ensure effective control

- **BOD, and Senior Managers**
- **Internal Audit Department**
- **Risk Management team**

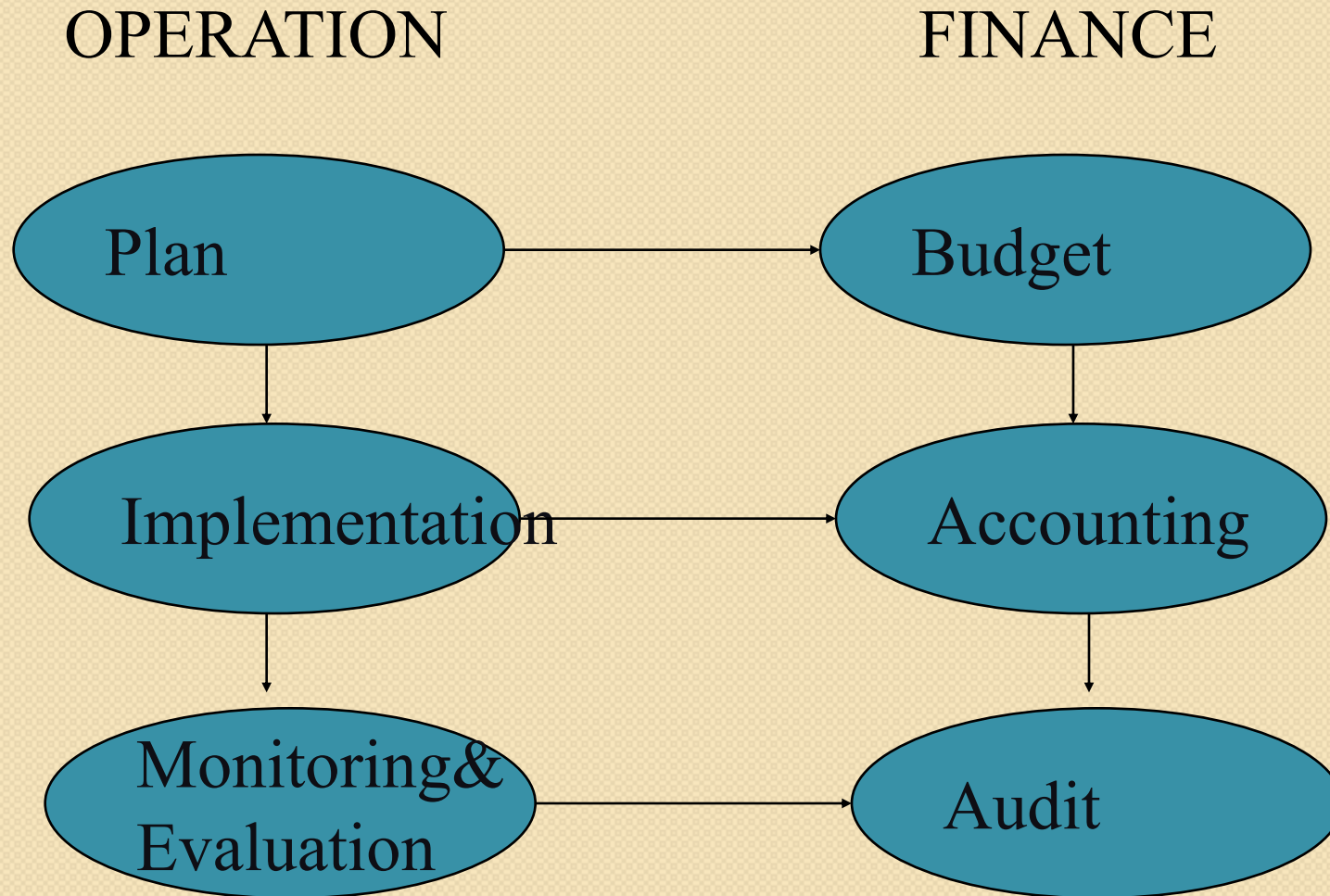


Now, let's
look at
Internal
audit

Internal Audit Contents

1. Development Cycle
2. What is the internal audit?
3. Why internal audit is important?
4. Internal Audit Scope/coverage
5. Implication of poor audit result
6. How to achieve good audit result

1. Development Cycle



2. What is “ Internal Audit” ?

- Internal Auditing is an **independent, objective assurance and continuing activity designed to add value and improve an organization’s operations**. It helps an organization accomplish its objectives by bringing a **systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal controls and operational efficiency**.

3. Why Is Internal Audit Important ?

1. Improve and strengthen internal control structure
2. Serve as a monitoring tool and provide service to management
3. Provide reliance/ quality assurance to donors
4. demonstrate a commitment to transparency and accountability
5. Bring credibility to the NGO.
6. Legal requirements in most countries

4. Internal Audit Scope might be as follow:

1. Statutory Matter
2. Project Goals & Accomplishment
3. Analytical Review
4. Financial Reports & Records
5. Segregation of Duties
6. Cash and Bank
7. Purchase and Disbursement
8. Confirmation of Purchases with Suppliers
9. Salaries & Benefits
10. Cash Advance
11. Fixed Assets & Inventory
12. Loans
13. Losses & Legal Actions
14. Implementation of Previous Audit Recommendations

5. Implication of Poor audit result

- Minimize reliance,
- Reduce Funding,
- Possibility to refund certain amounts for significant questioned costs.
- Entity reputation affected

6. How to achieve good audit result

- Effective internal control system in place.
- Policies, regulations and guidelines which could detect frauds and errors;
- Good documentation: Proper filing of crucial documents—grant agreements/modification, MOU, approved budget, financial and narrative reports,
- Clear understandings of systems, defined policies & requirements and procedures.
- Strengthen staff capacities
- Implementation of audit recommendations.