

What are some internal controls in an organisation?

Speaker: Let us take a quick look at various controls.

Budgetary control not only involves making the budget but also includes its implementation, monitoring and reviewing which can be annual, quarterly or monthly.

Up-to date accounting records have to be maintained. Many organizations fail to do by not making daily entries. This is a very important control as daily entries will help rectify errors even at a later stage.

A summary of accounts to be presented to the governing board, treasurer, etc is an important practice to be adopted.

Next is audit which is equally essential. Recommendations given by auditors should be followed up sincerely. Recommendations should be requested if not given.

Coming to the control of incoming funds, the security of incoming funds is very important. Incoming mails may sometimes contain some cheques. The person responsible for checking these in an organization is the lowest staff. The possibility of misplacing such mails like cheques, payment intimations, etc is higher in such a scenario. Hence incoming mails should be opened and checked in a secure place in the presence of more than one person.

Receipts for cash transaction should always be issued immediately while cash and cheques received should be recorded immediately.

Senior staff should also conduct regular checks to ensure income records are accurate. There should be a periodic check by someone other than the person who maintains it.

For expenditure control, authorization is the key factor. It is a must before any payment is made. The person authorizing expenditure will be different from the person who prepares and signs the cheque.

Audience: How is that always feasible, especially in a smaller organization?

Speaker: You should at least ensure that the person who maintains the books should not be the person who authorizes the payments.

Speaker: Next in line is purchase control. Pre-numbered order forms are an important aspect of purchase control. The invoice should be matched against the original order; what was ordered and what was received. The quality and quantity of goods received should be checked and entered in the stock register.

Speaker: Next are bank accounts; the bank account must always be in the name of the organization. Sometimes transfer of funds to field is transferred to the bank account of the staff. This practice needs to be stopped; program funds should not hit

any staffs' personal bank account. The arrangement for signatories must be clearly decided based on practical requirement. If the finance officer is involved in preparation of cheques, he should not be a signatory. Banking channels must be used for making payments and most payments should be made through account payee cheques. Blank cheques must never be signed as it causes a huge lapse in the internal controls.

Money receipts must also be deposited in the bank as often as it is practically possible. Retaining large amounts of cash in the office during weekends and holidays must be avoided as security of the cash is important. Reconciliation must be conducted monthly. Unused cheque leaves must be kept in safe custody. Closing down unused and inoperative bank accounts is a better option rather than keeping them idle. Cash must be held in a secured place within the organization. Insurance cover must be taken for cash in transit and cash in the premises. Only one person must be responsible for handling cash.

Some organizations may have a rotation of people who handle the cash but only one person should be entrusted with it at one time, a clear trail should be maintained and then transferred to the next person. The cashier must be different than the person dealing with the accounting record. All cash receipts and payments must be recorded in the cash book as soon as possible. Pre-numbered receipts must be used for issuing money receipts; the first copy to be issued to the person paying cash and the second copy will be returned to the organization for accounting records. These must be carbon copies and not perforated ones as in the perforated copies one amount can be written on the copy and another on the counterfoil causing discrepancy.

Large and unusual amounts must be authorized by a senior person and the limit must be set. Senior staff must conduct periodic physical verification of cash. The use of vehicles, computers, etc must be limited and persons entitled to use these facilities must be specified and clarified. All items must be registered in the name of the organization. Premises must be kept secure and must possess an insurance cover. Policy pertaining to the use of organization assets by the staff should be set and kept in place. Staff attendance records are also a must. Advance is a very tricky subject; every organization follows the practice of giving an advance as it is needed for implementing programs.

There should be a clear procedure for the approval of advance. Follow-up of outstanding advance is equally important as it often causes discord between the finance department and the program department. The program department will always have some or the other need for urgent funds while the finance department would want them to settle old advances. During follow-up of outstanding advances, the next advance should not be transferred if there are advances pending settlement. If it is too long, salaries must be attached and disciplinary action must be taken. Segregation of duties is a very important area and it affects all internal controls. It aims at preventing errors and potential frauds by ensuring that one person is not responsible for the entire transaction.

If only one person is responsible for the entire transaction then there is bound to be a lapse in the controls. There should be various people involved in the various processes – placing orders, receiving goods, authorizing payments, etc. In small organizations, there is always the question of who will make the cash verification – the cashier or accountant, in such scenario you can take external help and ask auditors to do the cash verification. Size of an organization should not be taken as an excuse for not implementing internal controls. Basically there should be more than one person involved in a transaction