



Internal controls for not-for-profit organisations

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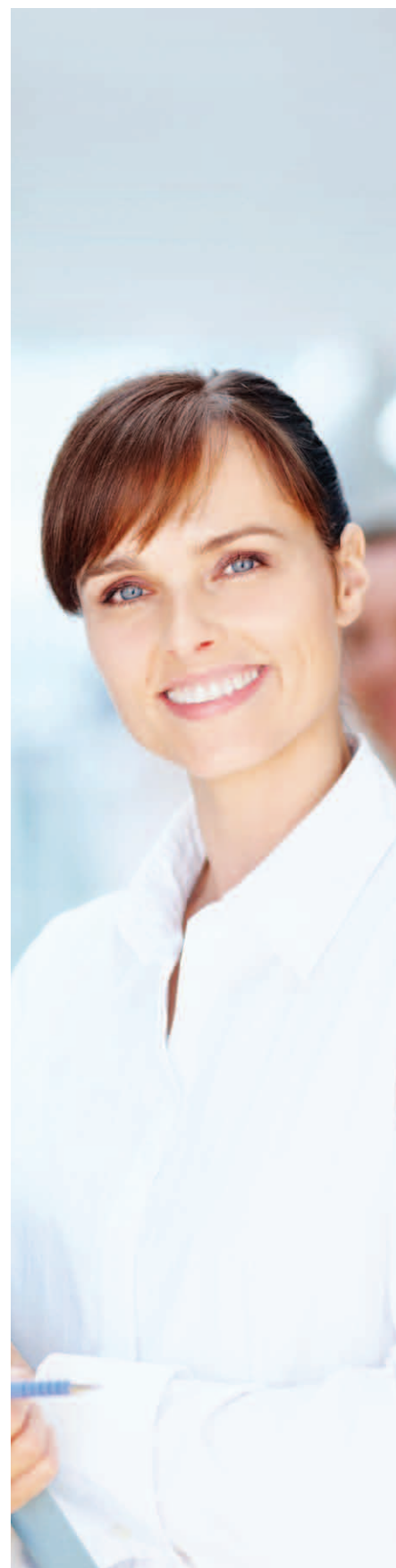
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Introduction

This guide is designed for managers, board members, advisory boards and management committees of small, medium and even large not-for-profit organisations (NFPOs) who want to, through the adoption of sound internal controls, have financially healthy organisations.

Through the development and implementation of sound internal controls, more efficient and effective management of resources and operations can be achieved. All organisations should, therefore, have policies and procedures established so that:

- boards and officers understand their fiduciary responsibilities
- assets are readily identifiable, protected and properly managed
- the purposes of the organisation is understood, clearly articulated and achieved.

The objective of this guide is to give assistance to NFPOs to critically assess policies and procedures and examine if these adequately minimise risks and promote good practice within the organisation. The guide does not provide an exhaustive list of internal controls.

What are internal controls?

Internal controls are systems of policies and procedures that safeguard assets, ensure accurate and reliable financial reporting, promote compliance with laws and regulations and achieve effective and efficient operations.

These systems not only relate to accounting and reporting but also include communication processes both internally and externally, staff management and error handling.

Sound internal controls include procedures for:

- handling funds received and expended by the organisation
- preparing appropriate and timely financial reporting to board members and senior management
- conducting the annual audit of the organisation's financial statements
- evaluating the performance of the organisation
- evaluating staff and programs
- maintaining inventory records of property
- implementing personnel and conflicts of interest policies.

Importance of internal controls

The effective implementation and monitoring of a sound internal control system helps ensure that NFPOs meet their objectives, such as providing services to the community professionally, while utilising resources efficiently and minimising the risk of fraud, mismanagement or error.

Good internal controls will:

- **help align the performance of the organisation with the overall objectives** – through continuous monitoring of the performance and activities carried out by the NFPO
- **encourage good management** – allowing management to receive timely and relevant information on performance against targets, as well as key figures that can indicate variances from targets
- **ensure proper financial reporting** – maintaining accurate and complete reports required by legislation and management, and minimising time lost correcting errors and ensuring resources are correctly and efficiently allocated
- **safeguard assets** – ensuring the organisation's physical, intellectual property and monetary assets are protected from fraud, theft and errors
- **deter and detect fraud and error** – ensuring the systems quickly identify errors and fraud if and when they occur
- **reduce exposure to risks** – minimising the chance of unexpected events.

The role of the board, management, staff and volunteers

The board of directors and management carry the ultimate responsibility for internal control within the NFPO. This primary responsibility is to ensure the organisation is accountable for its programs and finances to contributors, members, government regulators and other key stakeholders.

The role of the board is not to undertake operational activities, but to support and govern – the exception to this is in the case of very small NFPOs. An important part of the board's responsibility is to question and monitor the activities of the organisation, especially in relation to the financial health and overall viability of the NFPO. It is imperative that the board develops appropriate methods to undertake this responsibility, such as reporting mechanisms and board sub committees (e.g. Audit risk committee) that provide an appropriate overview of relevant information.

The role of management is to ensure accountability is in place and adhered to. The key purpose of this accountability is to ensure the organisation:

- adheres to the organisation's mission, vision and key performance objectives
- complies with all applicable laws and ethical standards
- protects the rights of members and other stakeholders
- creates and adheres to all personnel and accounting policies
- prepares and files all compliance reporting
- provides adequate and relevant information to the board when requested.

To ensure that the internal controls are successful, both the board and management must also comply with the controls. The “tone at the top” sets the benchmark for staff on the importance of internal controls.

All staff and, where appropriate, volunteers carry the responsibility to ensure internal controls are operating properly and complied with. Taking time to explain the importance of internal controls to staff and volunteers is time well spent as it helps them understand and appreciate why things are done in a certain way. Often, staff and volunteers will be more likely to support controls if they are involved in the process of developing the controls for their area of responsibility.

Following is an example of how a community radio station board ensures that policies and procedures continue to meet their organisations' strategic objectives.

Establishing internal controls

Effective internal controls require planning and assessment by the organisation from the outset. This is particularly true for NFPOs as personnel and financial resources are often limited. Where this occurs, it is essential for internal controls to be established within the limits of the organisation to ensure they are effective and can be supported by the available resources.

Example

Each year in January, the board and the senior executive of the radio station meet to review strategy, assess performance and prepare for the coming year.

One of the critical sessions conducted is a full review of policy and procedures at the board level. The board has a broad overview role to ensure the procedures support the strategic direction the board is setting, and that all policies are in place to manage the compliance and operational risk for the organisation.

The general manager is an active participant in the discussions, and provides an operational context to the board's strategic discussions.

Once the policies and procedures are reviewed and agreed by the board, the general manager calls a station meeting, reviews the policies and procedures with all staff, and makes sure that reporting mechanisms are in place to coordinate all activities and align behaviours to organisational strategy.

It is important that internal controls are supported by everyone within the organisation, including volunteers, and therefore the process of establishing internal controls is as important as the internal controls themselves.

When establishing internal controls, there are two key areas that the organisation should consider:

1. the control environment
2. risk assessment.

The control environment

The control environment is basically the culture of the organisation. This important part of establishing internal controls requires a “tone” set from the board and managers that should be communicated to all staff, volunteers and other key stakeholders.

An effective control environment is an environment where competent people understand their responsibilities, the limits to their authority, and are knowledgeable, mindful and committed to doing what is right, and doing it the right way. These people are committed to the organisation’s culture and follow the policies and procedures that are in place to support that culture.

The success of the control environment will rely on the board and management creating a positive “tone at the top” and demonstrating their commitment to internal controls by adhering to the organisation’s policies and procedures.

The control environment is created and enhanced by setting policies and procedures that embrace the overall objectives of the organisation. Such policies and procedures should cover the following:

- human resources – including hiring policies, conflict of interest, job descriptions, training, performance evaluations, remuneration and disciplinary procedures
- administration and financial – including job responsibilities, segregation of duties, procedures for key administration activities, reporting relationships, financial authorities and access to assets
- reporting – including frequency, content, preparation responsibility, identification of stakeholders
- systems – including access security, system hardware and software purchase and maintenance, procedures for key activities such as purchasing and disbursement of funds, disaster recovery and emergency planning.

Control environment checklist

The following checklist can be used to help you establish the appropriate control environment for your organisation. Not all of the items listed will be relevant for all organisations.

Control environment	Policy type	Key aspects to be included
Human resources (to cover both staff and volunteers)	Hiring policy	References to hiring procedures, such as anti-discrimination, legal compliance, police checks, type of employment offered (full-time, part-time, casual) and probationary period if applicable, induction programs, including safety and pre-employment training.
	Personnel files	Each employee should have a file that records all work history, including the following: employee contact details, start date, employment position, remuneration, record of all leave, any key performance indicators (KPIs).
	Performance evaluation	The frequency of employee evaluations, who will conduct the evaluation, and specific areas to be evaluated, such as meeting job responsibilities, training, extra duties etc.
	Staff training and support services	The organisation's policies on training of staff and volunteers, including any reimbursement of training costs and any support services offered to staff and volunteers, such as counselling, and the circumstances when they can access these support services.
	Payroll policy	Outline the payroll dates and cover contingency for pay dates falling on a public holiday, how payroll deductions will be authorised and made and taxation and superannuation deductions, overtime calculations, time in lieu etc.
	Personnel conduct	Detail the organisation's ethics, personal conduct expected from each employee and when corrective action may be required. Can include: termination policy, harassment policy and whistleblower policy.
	Delegation of responsibilities	Policy to authorise specific personnel to delegate responsibilities, including authorisations.
	Other human resource policies	Policies for conflict of interest, OH&S, insurance (including the insurance of volunteers and their private property, such as motor vehicle) and community participation e.g. jury duty, Australian Defence Force, emergency services.
Administration	Organisation chart	The roles and responsibilities of all managers, employees and volunteers. Examples will include: job descriptions, reporting lines/segregation of duties.
	Accreditation policies	Policies that relate to any accreditation requirements that are required by the organisation to operate.

Control environment	Policy type	Key aspects to be included
Financial	Financial reporting policy	Dates for financial year, accounting method and relevant compliance requirements (i.e. ASIC reporting, state government reporting, taxation reporting).
	Budget process	Timing and approval process of budgets.
	Financial statements	Detail all financial statements to be prepared, including level of detail required and any commentary to be included.
	Financial review and analysis	Detail who is responsible for financial review and analysis, frequency of review, key areas to be reviewed.
	Record keeping	Detail personnel responsible for record keeping, record keeping support required (software) and the objective of such record keeping (i.e. to monitor and track income and expenses according to approved budget).
	Audit	Policy on frequency of audit, appointment of auditors, personnel responsible for providing auditors with necessary information.
Reporting	Compliance reporting policy	Identify stakeholders, frequency, content and preparation responsibility of compliance reporting.
	General reporting policy	Identify stakeholders, frequency, content and preparation responsibility of general reporting.
Systems	Hardware and software	Detail responsibilities for technical planning, software purchases, hardware requirements, access and amendment authorisations.
	Disaster recovery plan	Detail all contingency plans for the recovery of systems, data, operations and the like, including the frequency of testing the recovery plan, responsibilities of personnel and a continuity plan.
	Emergency planning	<p>Evacuation procedures, first aid, collection of important information, documents, keys, passwords, combinations, storage of computer backup, contact details for emergency services.</p> <p>In addition, include details on communication with emergency services, employees, volunteers, customers and suppliers in the event of an incident.</p> <p>Consider developing the plan into sections, such as what needs to be done immediately and what needs to be done in the 24 or 48 hours following an emergency.</p>

Information and communication

The key to an effective control environment is information and communication. For each set of policies and procedures it is critical that all relevant staff, volunteers, members and stakeholders are kept informed. Effective communication can be executed in many different ways, such as through:

- the intranet
- employee and volunteer handbook/induction pack
- newsletters and bulletins
- regular meetings
- memos.

Below is an example of how one NFPO communicates to key stakeholders.

Example

We have two ways in which we communicate with key stakeholders.

Firstly, an orientation pack is prepared for all staff, volunteers and board members. This pack includes the following:

- company history
- statement of strategic insights – vision, mission, aims and guiding principles
- organisational flowcharts – roles and responsibilities
- specific site rules, e.g. parking
- superannuation options
- a list of links to commonly used templates
- a list of links to policies and procedures
- specific standard requirements by funding bodies
- any legal Acts required by the position to be aware of e.g. *Carer Recognition Act 2010*
- a checklist that needs to be signed by the staff member and the reviewer. This checklist ensures that the employee has been orientated to the ethos, policies, procedures and service areas within the organisation.

This orientation checklist is reviewed after three months of employment to ensure each item has been completed.

Secondly, we advise our stakeholders by displaying our organisation's Aim and Guiding Principles throughout the premises. We also publish brochures for our specific service areas and an annual report, which is available on our website and in hard copy. Most importantly, we ensure we are transparent and approachable to all our stakeholders.

Information and communication checklist

Consider what your answers would be to the following questions when assessing whether the information and communication in your organisation is adequate to support the control environment objectives.

Information and communication checklist

Does the organisation receive the information required from internal and external sources in a form and timeframe that is useful?

Is information received that helps monitor achievement of the organisation's operations, financial reporting and compliance objectives?

How does the organisation ensure that it remains up to date with all regulatory and compliance requirements?

Does each area of the organisation identify, capture, process and communicate the information that others need (e.g. information used by clients or other entities) in a form and timeframe that is useful?

Does each area of the organisation provide information to others that alerts them to internal or external risks?

Does each area of the organisation communicate effectively both internally and externally? If so, how?

Can the information and communication of any area of the organisation (including the board or management committee to employees, volunteers and external stakeholders) be improved? If so, how?

Risk assessment

The central theme of effective internal control is to identify the areas of the organisation that need to be monitored and protected, determine where possible risks to these areas exist and implement controls to manage these risks.

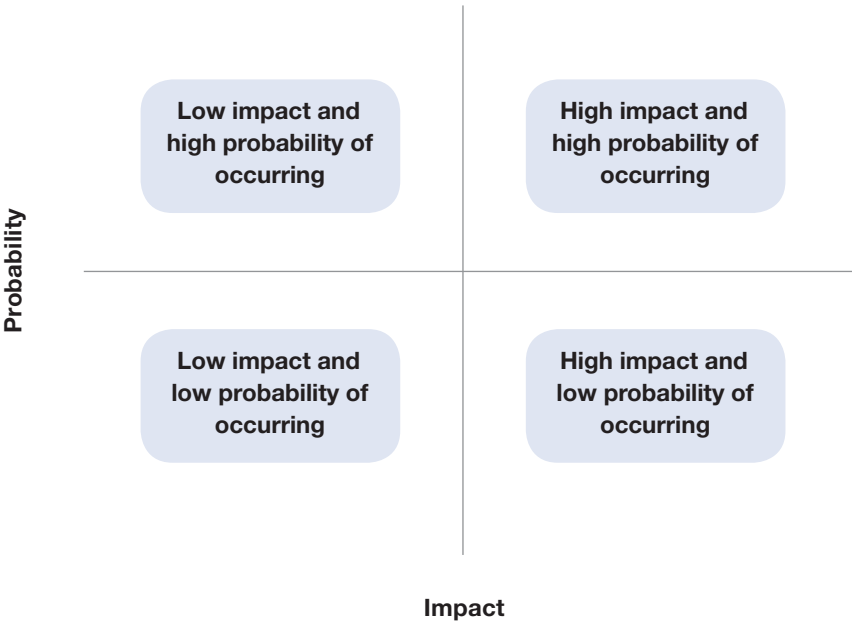
When assessing risk in the organisation, a good starting point is to review the overall objectives of the NFPO. This is usually documented in the organisation’s constitution, articles of association, mission statement or strategic plan.

Once the objectives have been identified, then the next step is to determine the possible risk associated with the achievement of these objectives. This step is critical to NFPOs, as it is unlikely all risks can be managed due to the limited resources available.

To identify the key areas of risk to be managed, it is important to assess the probability of an event occurring, the likely level of impact this will have on the business and how the outcome could impact the organisation’s activities as they align to the overall objectives of the NFPO.

Below is a matrix that can be used to help assess the risks within the organisation and prioritise which risks need to be managed.

Risk assessment matrix



Risk assessment checklist

A risk is anything that could jeopardise the achievement of any of the organisation's key objectives. Asking the following questions may assist to identify risks to your organisation:

Risk assessment checklist

What needs to be done to achieve strategic objectives?

Are there any aspects of the organisation that are vulnerable?

How is the organisation's reputation managed?

What assets need to be protected?

Is fraudulent activity within the organisation possible?

Is disruption to the organisation's operations possible?

How does the organisation monitor the achievement of the objectives?

What information does the organisation place heavy reliance on?

What activities does the organisation spend the highest portion of funds on?

Is there an overreliance on sources of revenue or grants from one or a limited number of sources?

How is revenue earned, billed and collected?

Which activities of the organisation are the most complex?

Which activities of the organisation are regulated?

What is the organisation's greatest legal exposure?

Implementing internal controls

Once the organisation has identified and assessed the key risk areas then it is important that internal control policies and procedures are developed to manage these risks. These policies and procedures should be readily accessible to all key stakeholders and be the primary source of reference for resolving operating and procedural questions.

Good internal controls systems require:

- competent, reliable, ethical staff and volunteers
- well documented policies
- assignment of responsibilities
- proper authorisation processes
- supervision of employees and volunteers
- separation of duties:
 - board governance from operations
 - operations from accounting
 - the custody of assets from accounting
- internal and external audits
- documents and records
- electronic records.

Limited resources and segregation of duties

It is acknowledged that many NFPOs are under-resourced and, at times, there is a need for everyone in the organisation to contribute to particular tasks to get a job done. From a governance perspective, this often means that directors move from an oversight role into an operational role.

While this is pragmatic and gets the job done, in these circumstances the applicable directors should consciously recognise they are in an operational role reporting to an executive for the time in which they are completing the particular task. Similarly, while all roles should have clear definitions and boundaries, sometimes the same person is filling some or all of these roles. This should be acknowledged consciously so that role definition remains clear, even if the same person is fulfilling a range of duties.

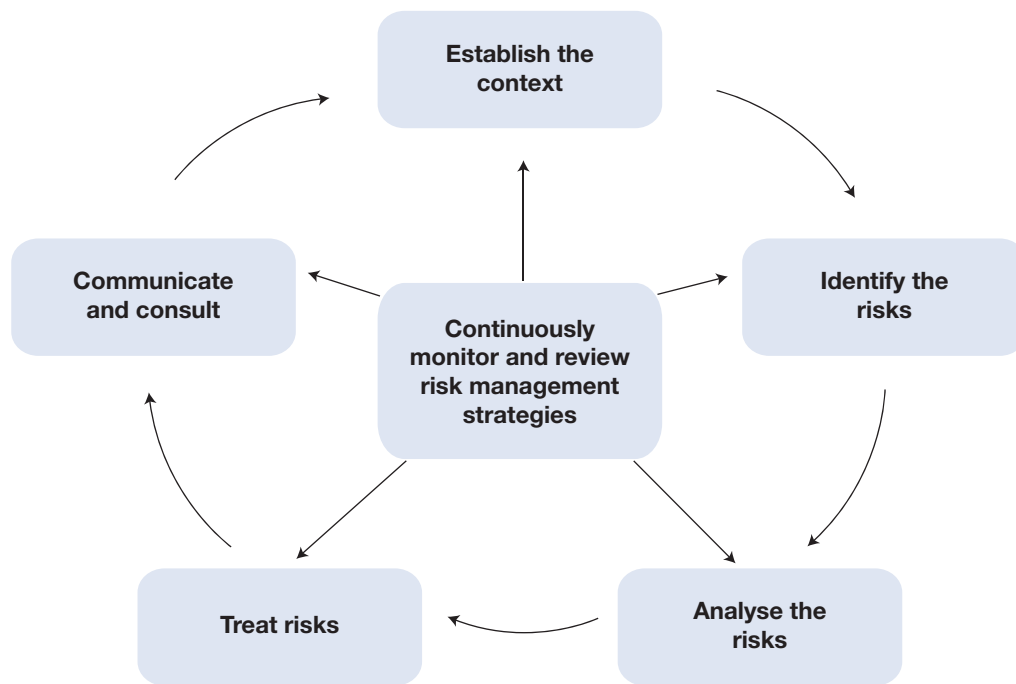
Internal controls checklist

Internal control activities generally include approvals, authorisations, verifications, reconciliations, reviews of performance, security of assets, segregation of duties, and controls over information systems. Essentially control activities will assist in deterring, preventing and disclosing risk events in the organisation.

The following checklist can be used to help identify internal controls that are either currently used or required within your organisation.

Internal control activity	Description
Performance reviews	Management compares information about current performance to budgets, forecasts, prior periods or other benchmarks (such as similar NFPOs) to measure the extent to which goals and objectives are being achieved and to identify unexpected results or unusual conditions that require follow-up.
Security of assets	Access to equipment, inventories, securities, cash and other assets (including intellectual assets) is restricted and physical controls, such as locks, security systems and passwords, have restricted access in line with authorisations.
	Assets are periodically counted and compared to amounts shown on control records.
Segregation of duties	Duties are segregated among different people to reduce the risk of error or inappropriate action. Normally, responsibilities for authorising transactions, recording transactions (accounting) and handling the related asset (custody) are divided.
Approvals, authorisations, verifications	Management authorises employees/volunteers to perform certain activities and to execute certain transactions within limited parameters. In addition, management specifies activities or transactions that need supervisory approval before they are performed or executed by employees or volunteers. A supervisor's approval implies that the activity or transaction is in line with the established policies and procedures.
Reconciliations	Different sets of data are compared and any differences in the data is identified and investigated. Where necessary, corrective action is taken to resolve differences and to ensure the accuracy and completeness of transactions that have been charged to a department's accounts. Reconciliations should be documented and approved by management.
General information systems controls	Controls over data centre operations, system software and hardware acquisition and maintenance, access security, and application system development and maintenance are implemented.
Application information systems controls	Computer application systems specific to individual applications are monitored, including input controls (e.g. edit checks), processing controls (e.g. record counts) and output controls (e.g. error listings).

Control activities must be implemented thoughtfully and consistently, taking into account the control environment, the outcomes of the risk assessment and, of course, applying due regard to the resources available to the organisation. The implementation of internal controls should be part of the continuous improvement program of any NFPO. The following risk assessment diagram may assist in implementing a continuous improvement process for the assessment of internal controls within the organisation.



Monitoring internal controls

Once internal controls have been established for the key activities of the organisation, the effectiveness of these controls requires monitoring to ensure that the objectives of the controls are being met. Ongoing monitoring activities include management and supervisory activities that evaluate and improve the design, execution and effectiveness of internal controls. Other ways that internal controls can be monitored is through the use of internal audits, self-assessment by employees, volunteers and managers, periodic review by an audit committee and spot checks to the internal control activity.

Internal controls are considered effective if:

- all key stakeholders, including management, employees, volunteers and the board understand the extent that internal controls assist in meeting the overall objectives of the organisation
- all financial reporting is prepared in a timely and accurate manner and delivers relevant information for decision making within the organisation
- all compliance requirements are being met.

Monitoring internal controls will ensure that the control activities of the organisation remain aligned with the changing strategic direction of the NFPO.

Below is an example of a board policy review schedule that helps the board ensure that internal controls and risks are regularly monitored.

Policy	Review method	Frequency	Next review
Chief executive officer limitations policies			
A. CEO limitations policy	Internal	Annual	April 2012
B. Management of clients	Internal	Annual	April 2012
C. Management of staff and volunteers	Internal	Annual	April 2012
D. Financial planning and budgeting	Internal	Annual	June 2012
E. Financial condition and activities	External	Annual	June 2012
F. Emergency CEO succession	Internal	Annual	August 2012
G. Asset and resource protection	External	Annual	August 2012
H. Compensation and benefits	Internal	Annual	October 2012
I. Communication and support to the board	Internal	Annual	October 2012
J. End focus on grants or contracts	Internal	Annual	December 2012
Board governance process policies			
A. Governance commitment	Internal	Annual	April 2012
B. Governing style	Internal	Annual	April 2012
C. Agenda planning	Internal	Annual	April 2012
D. Chairperson's role	Internal	Annual	June 2012
E. Board members code of conduct	Internal	Annual	June 2012
F. Board committee principles	Internal	Annual	August 2012
G. Cost of governance	Internal	Annual	August 2012

Fraud and internal controls

One of the most serious threats to the success of any organisation is fraud. Misplaced trust, inadequate hiring and supervision policies, and a failure to implement strong internal controls can lead to an environment that is ripe for internal theft and fraud.

Fraud is more common than most organisations believe and can have various impacts on an organisation. It is about opportunity. If there are no measures in place to limit the opportunity for fraud, temptation is easily created, which exposes the organisation to a greater chance of fraud.

As the old saying goes “prevention is better than a cure” and this is certainly relevant when considering how to manage the risk of fraud. The most important aspect to managing this risk is ensuring that the organisation has solid internal controls in place. For every fraudulent activity, there is always a breakdown of internal controls.

Minimising the potential for fraud will require designing and implementing a control environment that prevents, detects and deters most fraudulent behaviour. As stated previously, the creation of such a control environment begins with the tone at the top. Managing the risk of fraud requires the board and senior managers to support and adhere to all policies and procedures implemented to manage this risk. There should be no exceptions – senior management and board members must lead by example.

Internal controls that protect against possible fraud should include:

- separation of duties – no one person should be responsible for a complete transaction from start to finish
- access controls – physical controls, such as locks and passwords for valuable assets, including information and business systems
- authorisation controls – policies that clearly articulate who is authorised to conduct business on behalf of the organisation and who is responsible for each step of a transaction, building in the separation of duties requirement.

Where appropriate, there should be visibility of the organisation’s internal controls for key stakeholders such as members, customers, recipients, donors, banks and suppliers. Obvious visibility could include, for example, security cameras used within the retail space. However, other visibility might be achieved through solid policy, such as ensuring that all orders raised have a purchase order before payment is made. The organisation’s suppliers can then be made aware of this system and will know to look for a purchase order before they complete an order to ensure they will be paid.

Opportunity is essential for a fraud to occur. Therefore solid internal controls that reduce such opportunities should be a high priority where an organisation is attempting to minimise the risk of fraud.

Strategies to minimise the likelihood of fraudulent activities within the organisation

The following table outlines some strategies NFPOs can consider when trying to minimise the risk of fraud.

Strategy	Description
Lead by example	Senior management and board members set the example for employees and volunteers. Every person within the organisation, regardless of seniority, should adhere to the policies and procedures and be held accountable for their actions.
Create a positive working environment (control environment)	A positive work environment encourages employees and volunteers to follow established policies and procedures, and act in the best interest of the organisation. Most employees and volunteers will respond positively to clear organisational structure, clarity of responsibilities, fair employment practices, open lines of communication between management, employees and volunteers, and positive employee and volunteer recognition, hence reducing the likelihood of employee/volunteer fraud.
Implement internal controls	Internal controls are designed to ensure the effectiveness and efficiencies of operations, compliance with laws and regulations, safeguarding of assets and accurate financial reporting, and will ensure that the risk of employee/volunteer fraud is minimised.
Create a code of conduct	The code of conduct should make it clear that there is zero tolerance of any fraudulent activity on any level of the business. This code should also clarify what constitutes employee/volunteer fraud, as this is often an area of confusion.
Implement a whistleblowing policy and mechanism	A whistleblowing policy should outline the steps to be taken if an employee or volunteer suspects another individual of fraud. To supplement the policy, a mechanism that allows employees or volunteers to communicate their concerns about potential fraud anonymously, and without fear of negative consequences, is recommended.
Create an organisational chart	An organisational chart should define the roles and responsibilities of all managers, employees and volunteers. Examples will include: job descriptions, reporting lines/segregation of duties, mandatory job rotations and leave.
Implement a comprehensive recruitment and screening policy for employees and volunteers	A recruitment screening policy should involve: <ul style="list-style-type: none"> • past employment verification and reasonable explanations of any employment gaps • police checks – there are specialist companies that can provide this information within 48 hours • verification of qualifications – sight original documents or contact institutions that issued the qualifications • reference checks • credit checks (especially for employees and volunteers working in finance or handling stock).
Monitor employee and volunteer behaviour	Telltale signs of fraud can sometimes be seen in employees who regularly work outside business hours or rarely take holidays. Although these employees may appear diligent, they may have other motives for being in the workplace unsupervised. Another warning sign could be an employee who appears to be spending or living beyond their means – this could be a sign that they are sourcing funds to support their lifestyle from the organisation.
Implement supervisory processes	Strong supervision is vital, especially in smaller NFPOs that may have difficulty segregating duties. This can include approval, review, authorisations and occasional spot checks which might involve re-doing work.
Perform regular accounting reconciliations	Regular, appropriately performed accounting reconciliations (such as bank reconciliations and analyses between budget and actual figures), can make fraud concealment very difficult.
Perform regular activity monitoring	Regular spot checks in key risk areas, such as outgoing invoices, EFT and other cash payments and cash receipts will help uncover discrepancies, as well as show employees and volunteers that organisation activities are subject to regular review.
Implement physical access controls	Physical access controls should involve restricting access to premises, cash registers, computer systems and safes to those who require access to perform their job. Examples of restrictions include: <ul style="list-style-type: none"> • ensuring relevant doors, desks and filing cabinets are locked • implementing systems that report employee and volunteer activity, such as who has entered or altered data in your database • installing electronic surveillance systems.
Investigate every incident	A thorough and prompt investigation of policy and procedure violations, allegations of fraud or warning signs of fraud will give you the facts you need to make informed decisions and reduce losses.

Basic internal financial controls

Control over the financial activities of the NFPO is critical to managing the organisation. The following checklists provide examples of financial controls, including the objective and detailed procedures required to achieve the objective.

These examples are not exhaustive and it is suggested that each organisation develop policies and procedures that best match the objectives of the organisation.

Cash receipts checklist

The area of cash receipts is a common target for an employee or volunteers to commit fraud. This is because of the ready and available nature of this method of payment, as well as the difficulty of matching cash with a particular transaction. The points below need to be considered.

Cash receipts checklist		
Objective	Procedures	Checklist
To ensure that all cash intended for the organisation is received, promptly deposited, properly recorded, reconciled and safeguarded	Segregation of duties	Are the cash receiving, processing, recording and bank reconciliation functions clearly segregated?
	Initial receipt	Are all cash receipts (including donations) recorded in a log when received and are cheques restrictively endorsed for depositing into the organisation's bank account?
		Are receipts for cash donations issued?
		Are cash sales controlled by cash registers or pre-numbered cash receipts forms?
		If you have a cash register, is its access controlled?
		If you have a cash register, is it reconciled regularly?
		Do you know which employee or volunteer has access to each register?
		Who reconciles each register? Is the reconciler a different person to the employee or volunteer who has access to the register?
		Are physical safeguards over cash donations maintained if they are not deposited within the same day? For instance, are cash donations kept in a fire-resistant lock box?
	Deposit	Is cash deposited in a bank account intact, and on a timely basis, by a person independent of receiving and general ledger/recording functions?
	Recording	Is the initial log of receipts compared with bank deposit slips?
		Is the cash receipts journal posted by a person independent of the receiving and cash deposit functions?
	Bank reconciliation	Are bank reconciliations prepared by a person independent of the cash receiving, processing and recording functions? If the organisation is unable to segregate these functions, are bank reconciliations reviewed by someone independent of the cash processing function?

Accounts receivable checklist

Accounts receivable is an important aspect of the organisation. Delays or failure to collect accounts when due can result in cash flow shortages and profit erosion.

Accounts receivable checklist		
Objective	Procedures	Checklist
To ensure that all accounts receivables are received in a timely manner and deposited, recorded and reconciled	Set policies	Are all credit and collection policies of the organisation documented?
		Are all relevant persons aware of credit and collection policies?
		Is there a well-documented and strict policy for the follow up of overdue accounts?
	New customers	Are all new customers credit checked to ensure authenticity and credit standing?
	Segregation of duties	Are the persons responsible for the accounts receivable function and the cash receipting different?
	Customer receipts	Does the organisation have numerical or batch-processing controls over billing?
		Are there procedures in place for cross-checking early payment discounts and penalties on overdue accounts?
		Are there controls in place to ensure that the mailing of accounts cannot be tampered with?
		Are overdue accounts regularly reviewed?
		Are there procedures in place to follow up late payments?
		Are transactions, such as non-cash credits and write-offs of bad debts, cross-checked regularly?
	Reconciliation	Is a trial balance of individual accounts receivable prepared regularly?

Cash payments checklist

Once again, cash and the ease of access to it is the issue here. Effective controls will reduce the risk of misappropriation in this area and the following points should be considered.

Cash payments checklist		
Objective	Procedures	Checklist
To ensure that cash is disbursed only upon proper authorisation of management, for valid purposes, and that all payments are properly recorded	Segregation of duties	Are the authorisation, EFT processing or cheque signing, payment recording and bank reconciliation functions clearly segregated?
	Authorisation and processing of payments	Does the organisation have a policy for employees or volunteers who are authorised to approve expenditures?
		Are all expenditures approved in advance by authorised persons?
		Are those who process the EFT payments or cheque payments different to those who authorise the expenditure?
		Are invoices or requests for expense reimbursements supported by appropriate receipts or approval indicating receipt of goods or services? Is this policy effectively communicated to all appropriate persons, including volunteers, in writing?
		Where payments are made by cheques, are they pre-numbered?
		Are all cancelled EFT payments and cheques recorded?
		Is a record of cash payments (e.g. cheque stubs, cheque copies, EFT payments listing) kept by the person processing payments?
		Are there two persons to authorise all payments, including EFT payments?
	Recording of cash	Where manually recording cash payments, is this done by a person independent of the cheque processing and payment authorising functions?
	Bank reconciliation	Are bank statements received directly and reconciled with payment records by a person independent of the cash authorisation, cheque processing and cheque signing functions?
	EFT payments / cheque signing	Is EFT payments and cheque signing authority given to persons at appropriately high levels in the organisation?
		Do larger payments require a higher level of authority?
		For larger amounts, e.g. amounts over \$5000, are there two persons nominated for authorisation (such as the CEO and a board director)?
		Are scheduled EFT payments, or signed cheques, sent immediately by the authorisers?
		Do payment authorisers: <ul style="list-style-type: none"> • review and initial documentation supporting cheques indicating completeness and appropriate approval? • compare cheque amounts, on a test basis, to the listing of payments accompanying cheques?

Purchases checklist

Controls in the area of purchasing are important so that the physical assets of the organisation are protected (e.g. stock) and that goods properly purchased and received are properly paid and accounted for. Remember that controls should indicate to you errors and sloppy work practices, as well as outright fraud.

Purchases checklist		
Objective	Procedures	Checklist
To ensure that all purchases of the organisation are made only upon proper authorisation of management	Purchase orders	Do all purchases over a set limit require a purchase order to be raised?
		Are competitive quotations required for specific purchases (e.g. purchases over a specified limit)?
		Are there controls in place to ensure that purchase orders can only be raised for approved suppliers?
	Authorisation and processing of payments	Are all supplier invoices matched with applicable purchasing orders?
		Are all supplier invoices matched with applicable receiving reports?
		Are all supplier invoices reviewed for correctness?
		Are all available discounts taken where appropriate?

Receiving checklist

Receiving is another important component of the purchasing function and is an area in which the lack of controls can lead to significant financial loss. Stock is another area that is a common target for fraud and error.

Receiving checklist		
Objective	Procedures	Checklist
To ensure that receipt of goods and services of the organisation are monitored and recorded appropriately	Physical check	Are all goods inspected for condition and independently counted, measured or weighed when received?
		Are all goods checked against any packing slips and purchase orders?
	Receiving reports	Are receiving reports used and prepared promptly?
		Are receiving reports pre-numbered and is the sequence of all numbers accounted for?
		Are receiving reports promptly provided to those who perform the purchasing and accounts payable function?
		Are receiving reports controlled so that liability may be determined for materials received but not yet invoiced?

Accounts payable checklist

Many organisations have found that mistakes made in their purchasing and accounts payable can be very costly. This is an area that deserves careful attention and there should be many internal controls within the payments systems. Make sure you have a clear and simple list of written procedures for purchases and accounts payable to ensure all staff and volunteers know the processes they are expected to follow.

Some simple but important controls to consider when reviewing payments are:

Accounts payable checklist		
Objective	Procedures	Checklist
To ensure that accounts payable are supported by appropriate documentation, are promptly paid and properly recorded	Policy	Are all purchasing and accounts payable procedures documented? Are all relevant persons aware of the policies and procedures?
	Segregation of duties	Are the authorisation, processing and payment functions clearly segregated?
	Authorisation	Does the organisation have a list of persons authorised to approve accounts payable? The procedures for authorisation of cash payment should be the same for payment of accounts.
	Recording of payables	Are all approved invoices promptly entered into the accounting system or accounts payable register to establish control for payment?
		Are unpaid invoices maintained in a distinct unpaid invoice file?
		Are statements from suppliers regularly compared with open invoice files?
		Are invoices from unfamiliar or unusual suppliers reviewed and approved for payment by authorised personnel who are independent of the invoice processing function?
	Payment	Are payments entered promptly in the accounting system or recorded in the accounts payable register to avoid double payment?
		Does the organisation have controls in place to ensure payments are not duplicated, i.e. payment on original invoices only – not copies, faxes or statements – and paid invoices are “stamped”?
		Is the accounts payable register periodically reconciled with the general ledger by a person independent of the invoice processing function?
		Is a listing of unpaid invoices regularly prepared and periodically reconciled with the general ledger by a person independent of the invoice processing function?
	Validation	Does the organisation have controls in place to check for identical orders or payments?
		Are refund cheques from suppliers handled by someone other than the person processing the invoices?
		Does the organisation check invoices from entities that only supply a PO Box address?
		Does the organisation check invoices with company names consisting only of initials?
		Does the organisation check unfamiliar suppliers in the phone book or, for Australia, check their ABN on www.abr.gov.au ?
		Are new suppliers authorised by someone other than the person responsible for the payment process?
		Are there checks in place for rapidly increasing purchases from one supplier?
		Are there periodic checks in place to validate any supplier addresses and bank account details against employee/volunteer addresses and bank account details?
		Is there a process in place to review large billings broken into multiple smaller invoices, each of which is for an amount that would not attract attention?

Payroll checklist

Many payrolls, even small ones, are now automated, so it is easier to commit fraud or errors if the internal controls are not tight and the procedures are not set or followed.

Payroll checklist		
Objective	Procedures	Checklist
To ensure that: payroll payments are only made upon proper authorisation of management to bona fide employees; payroll payments are properly recorded; and the organisation complies with related legal requirements, such as PAYG and superannuation payments (in Australia)	Segregation of duties	Are the personnel authorisation, payroll preparation, payroll approval, payroll payment, record keeping and bank reconciliation functions clearly segregated?
	Personnel authorisation	Are changes in employment (additions and terminations), salaries, wage rates and payroll deductions authorised by appropriate non-accounting personnel?
		Do policies and procedures exist for the accounting of annual and sick leave?
		Are changes in employment status recorded in employee personnel files that are maintained by a person independent of the payroll processing function?
	Timekeeping	Are attendance records, including hours worked, overtime and special benefits, reviewed and approved by authorised non-accounting personnel?
	Payroll preparation	Is the payroll register kept by person(s) processing payroll cheques?
		Are salary payments cross-checked with the payroll register before they are authorised?
	Payroll approval and payment	Is a separate imprest basis payroll bank account maintained?
		Is the imprest basis payroll bank account periodically reconciled?
		Is there a maximum dollar amount set that can be drawn on the imprest basis payroll bank account?
		Is there more than one person that can process payroll?
		Is payment authorisation consistent with that for general payments?
	Validation	Are there checks in place to ensure that the names on the payroll actually match real people who have been employed?

Petty cash controls checklist

The most effective way to control petty cash is to limit the amount of cash held in the petty cash fund (box) and limit the amount to be paid out through petty cash reimbursement. Ensuring that all cash held on site is securely stored will reduce the risk of theft.

Petty cash controls checklist	
Objective	Checklist
To ensure that petty cash and other working funds are disbursed only for the proper purposes and are adequately safeguarded and recorded	Is there a separate amount of cash set aside for small purchases, known as petty cash (this is referred to as an imprest account)?
	Is there only one person who can distribute petty cash funds?
	Are the types and amounts of petty cash payments limited? For example, all cash reimbursements over \$50 are paid by EFT or cheque.
	Are advances to employees from the petty cash fund authorised by appropriate personnel?
	Are petty cash transactions periodically monitored, and are increased levels of activity investigated?
	Who reconciles the petty cash and is there another person with oversight to the reconciliation?
	How is the petty cash fund reimbursed? Where a cheque is drawn for cash, there should be two signatories.
	Once reimbursed, are petty cash vouchers and receipts marked to prevent reuse?
	Are unannounced counts of petty cash funds made by an individual other than the custodian?
	Are physical safeguards over petty cash funds, including fire-resistant boxes, vaults and overnight depositories, maintained?

Reciprocal grants and investment income controls checklist

Reciprocal grants and investment income controls checklist	
Objective	Checklist
To ensure reciprocal grants are properly recorded, adequately safeguarded and managed in accordance with any related restrictions and prudent investment management practices, and all investment income due is promptly collected, deposited and recorded	Are the receipt, recording, custody, transaction authorisation and performance monitoring functions of all reciprocal grants clearly segregated?
	Are restrictions on, and proposed uses of, reciprocal grants and investment income reviewed prior to disbursement?
	Are reciprocal grants recorded in separate accounts, and are restrictions on investment principal and income documented?
	Are reciprocal grants recorded in the accounting records by a person independent of initial receipt?
	Is the disbursement of reciprocal grants reviewed by appropriate non-accounting personnel to determine whether the disbursement is in conformity with donor or board imposed restrictions?
	Is investment income received periodically compared with investment revenue estimates in the operating budget?

Grants, gifts and bequests received controls checklist

Reciprocal grants and investment income controls checklist	
Objective	Checklist
To ensure all grants, gifts and bequests are received and properly recorded, and that compliance with the terms of any related restrictions are adequately monitored	Is the receipt and recording of grants, gifts and bequests segregated from expenditure and monitoring of amounts expended?
	Once notified of a grant, gift or bequest award, is the amount expected to be received recorded in a separate receivable account?
	If an award is not received on a timely basis, is the awarding party promptly notified?
	Once the award is received, is the amount received recorded by an individual who is independent of the cash receipts function?
	Are awards contingent upon future events periodically monitored?
	If possible, are budget estimates prepared for grants and gifts? Are award receipts periodically compared with award estimates in the operating budget?
	Are restrictions on use of awards documented? Is compliance with restrictions verified before the initial and all subsequent payments? Assign a staff or board member to ensure monies are used for the purpose specified. Properly segregate restricted revenues from unrestricted revenues.
	In the case of grants, are accounts periodically monitored for unexpended funds, and are they promptly returned to the awarding party, if necessary?

Conclusion

In establishing internal controls of NFPOs, it is imperative to take into account the the risk appetite of the NFPO. Each organisation is different and will have varying requirements, so it is recommended that each organisation develop internal controls that best match the objectives and resources of the organisation.



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