

Short guide to internal controls for small not for profit entities

Introduction

Given the reliance of many small Not For Profit (NFP) entities on a small number of volunteers of differing backgrounds and skills to run their organisation, they can be susceptible to fraud and error.

This guide therefore introduces some examples of basic internal controls that can help NFPs minimise risks and promote good practice.

The examples are not intended to be exhaustive, hence organisations should seek the advice of their external auditor as to what internal controls are appropriate for their entity.

Why are internal controls important?

Many NFPs have limited resources and often as a result, appropriate checks and balances are not what they should be. Such an environment, plus misplaced trust and inadequate vetting and supervision increases the risk of the organisation experiencing fraud or error.

Effective internal controls help an organisation:

- + safeguard assets
- + ensure accurate and reliable financial reporting
- + reduce exposure to risk
- + reduce the risk of, and detect fraud and error
- + promote compliance with laws and regulations, and
- + encourage good management

Implementation and monitoring of internal controls

Successful implementation of internal controls involves:

- + having the policies written down
- + ensuring the internal controls apply equally to everyone
- + making it clear that breaches of internal controls and fraud will not be tolerated
- + implementing a whistleblowing policy to encourage reporting of suspected breaches of the internal controls
- + monitoring volunteer behaviour – look for signs something could be wrong such as volunteers spending beyond their means or not reporting regularly, no matter what reason is given
- + strong supervision of volunteers, particularly where one volunteer performs multiple roles
- + monitoring the internal controls, through internal audit, self-assessment and external audit.

Examples of internal controls

Area	Internal control	Example
Selecting volunteers	Treat engaging a volunteer the same way you would go about hiring staff. Make sure they have the skills you need, do reference checks, police checks etc.	Before a volunteer is accepted into a position of responsibility in our organisation, they should submit a CV, including references and we will <ul style="list-style-type: none"> + review the CV so that their skills fit our organisation's needs + check their references + undertake a police check
	Provide volunteers with a clear description of: <ul style="list-style-type: none"> + their role and responsibilities + their authorisations, if applicable + the conduct expected of volunteers + reporting obligations 	As part of the induction of a new volunteer, they will receive: <ul style="list-style-type: none"> + a clear description of their roles and responsibilities + detail of the conduct expected of them + what they are required to report, to whom they are required to report and the frequency of reporting
Finances	Establish when the annual budget is to be presented to the Board for approval	The treasurer is to present a draft budget (including cash flow forecasts) for the next financial year for consideration and approval by the Board at least two months prior to the commencement of the new financial year.
	Establish when annual financial statements are to be presented to the Board for review and signing off	The treasurer is to present the audited financial statements (being a profit and loss statement, balance sheet and statement of cash flow) for a financial year to the Board for consideration and approval within two months of the end of that financial year
	Establish the frequency with which interim financial statements are to be presented to the Board and what information should be included in those financial statements	At each Board meeting, the treasurer is to present the following financial statements for consideration and approval: <ul style="list-style-type: none"> + a profit and loss statement and balance sheet for the year to date + a comparison of actual results against budgeted expectations (including explanations for variances) + cash flow forecasts for the remainder of the financial year + any identified risks + completed bank reconciliations for each month since the last board meeting
	Detail the recordkeeping requirements	The treasurer is to input data on a transaction into the organisation's bookkeeping system as soon as practical after the transaction is undertaken. The treasurer is to bank cash and cheques into the organisation's bank account as soon as possible after the receipt of such monies
	Reconciliation of bank statements	A volunteer other than the treasurer is to undertake the reconciliation of the organisation's bank accounts on a monthly basis and provide such completed reconciliations to the Board. Where a reconciliation does not balance, the volunteer is to report this to the

		president as soon as practicable
	Process for authorising expenditure	Expenditure under \$1,000 can be authorised by the president. Over that amount, the Board is to authorise such expenditure
	Process for expense reimbursement	All requests for expense reimbursement are to be supported by appropriate evidence and signed off by the treasurer if under \$100. Expense claims over that amount must be signed off by the president and treasurer before payment
	Establish who can sign cheques and EFTs and what such signatories must review before signing	The president and the vice president are to be the two main cheque and EFT signatories (and not the treasurer). Before signing, the signatories are to take reasonable care to check the documentation supporting the payment
	Reviewing supplier invoices	The treasurer is to review all invoices and match them with purchase orders
	Report on the organisation's investments	The treasurer is to provide a report on the investments of the organisation at each board meeting.
Security of assets	Access to assets and cash should be restricted through locks, security systems, passwords, etc	All cash and cheques received by the organisation should be kept by the treasurer in a secure place before it is banked
	Assets should be periodically counted and compared with records	The treasurer is to undertake an annual stocktake of the assets of the organisation and compare that to the list of assets. Any assets identified as missing should be reported to the president as soon as practical
	Petty cash	The treasurer is to be responsible for petty cash. The maximum amount to be paid out of petty cash is to be no more than \$50. The total of the petty cash should not exceed \$100
Reporting of breaches of internal controls	It is important that volunteers know what the internal controls are and the process for reporting suspected breaches and that all reported suspected breaches will be investigated	<ul style="list-style-type: none"> + As part of their involvement in the organisation, all volunteers are to become familiar with the internal controls and that they should report all suspected breaches of the internal controls. + The president or their nominee will investigate all suspected breaches of the internal controls + The organisation will maintain a relationship with an external who can receive anonymous reports of potential breaches of the internal controls (a whistleblowing policy)

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