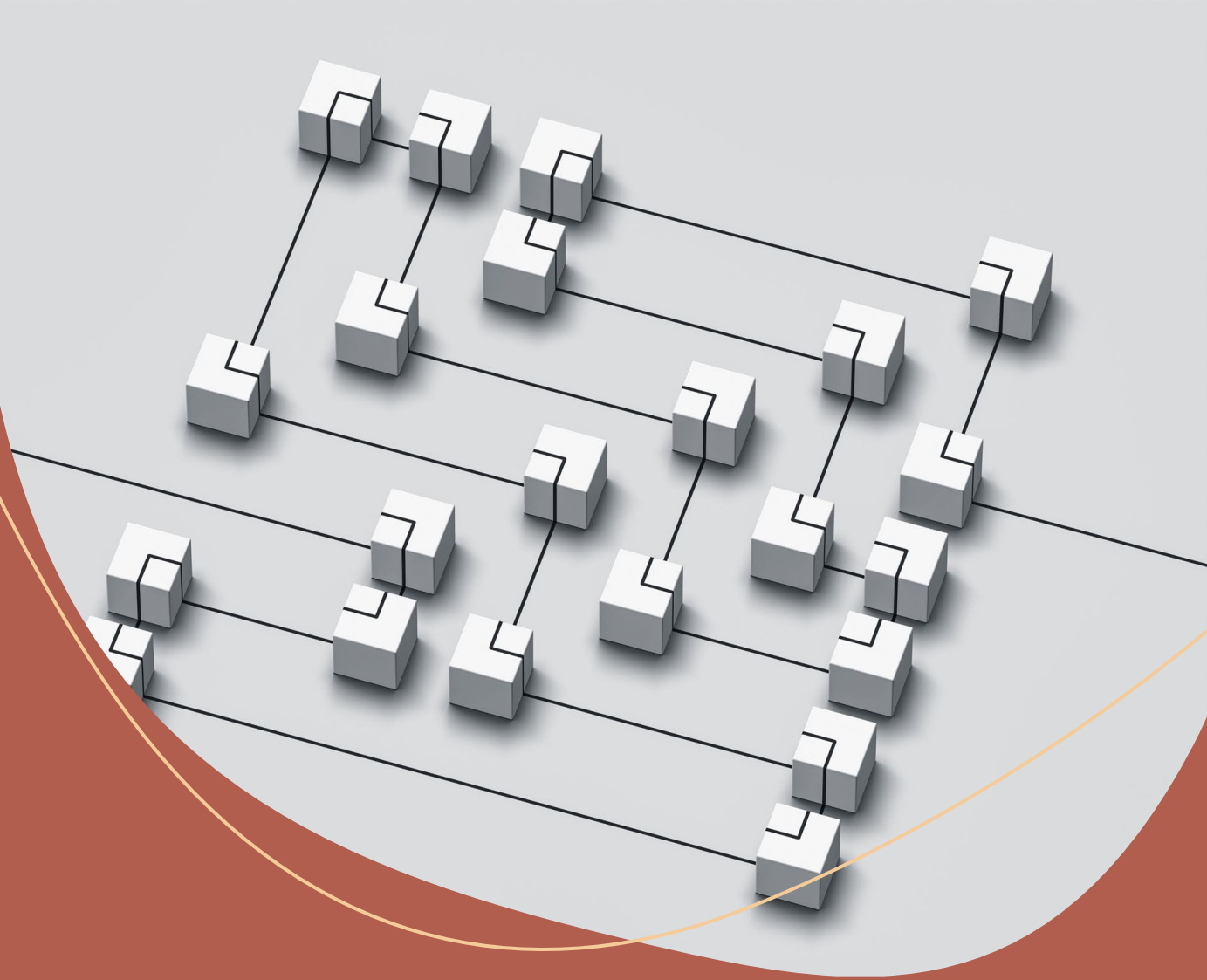


## An Internal Controls Overview NCDA&CS Internal Audit Division

Exploring essential controls for  
organizational integrity



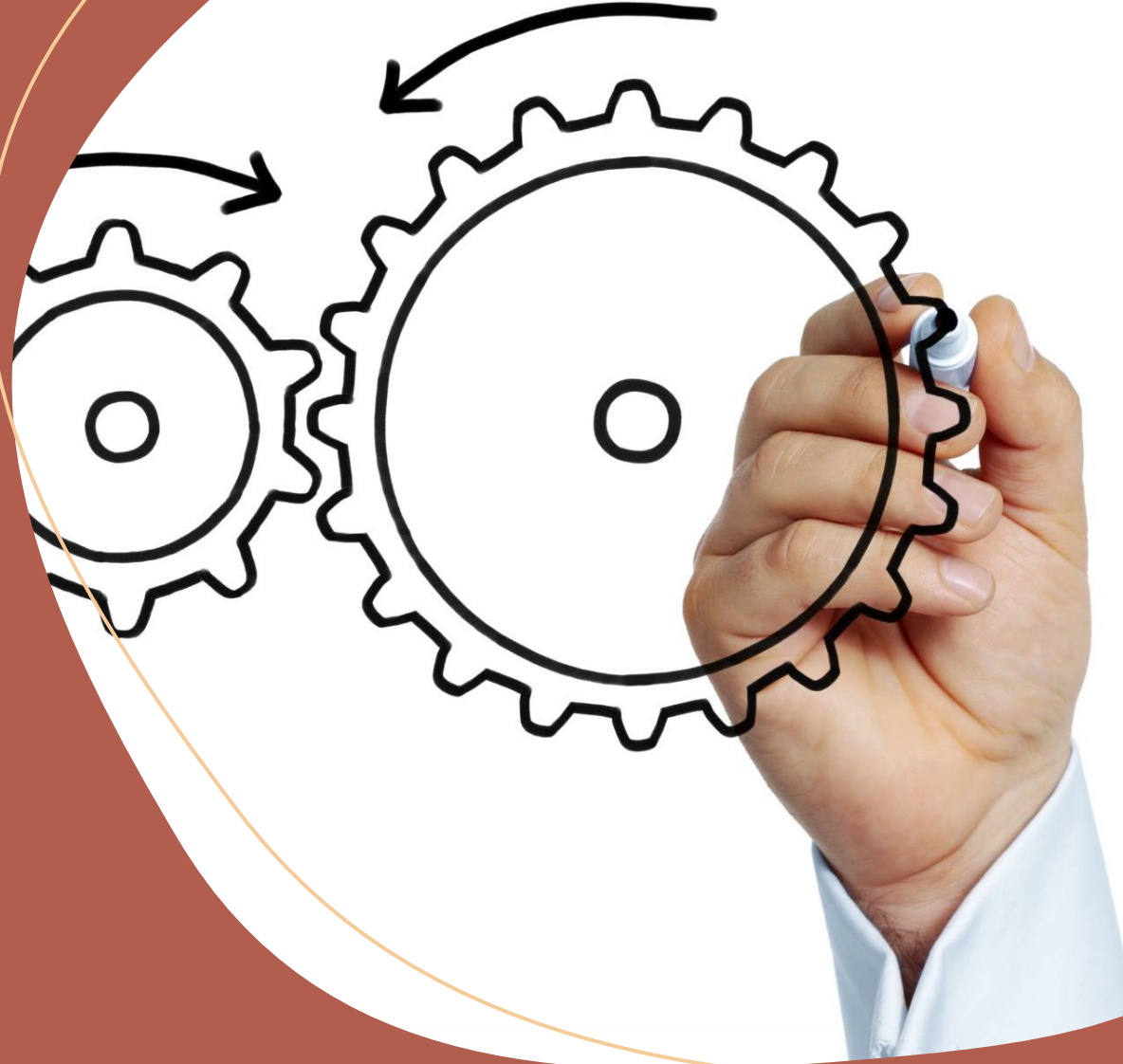
# What are Internal Controls?

- Internal controls are processes designed to ensure accuracy in financial reporting.
- They help prevent fraud and safeguard assets within an organization.
- Internal controls enhance operational efficiency and compliance with laws.
- These controls include policies, procedures, and organizational structures.



# Types of Internal Controls

- Preventive Controls
- Detective Controls
- Corrective Controls
- Management Controls
- Compensating Controls





# Preventive Controls

# Segregation of Duties

## Definition of Segregation of Duties

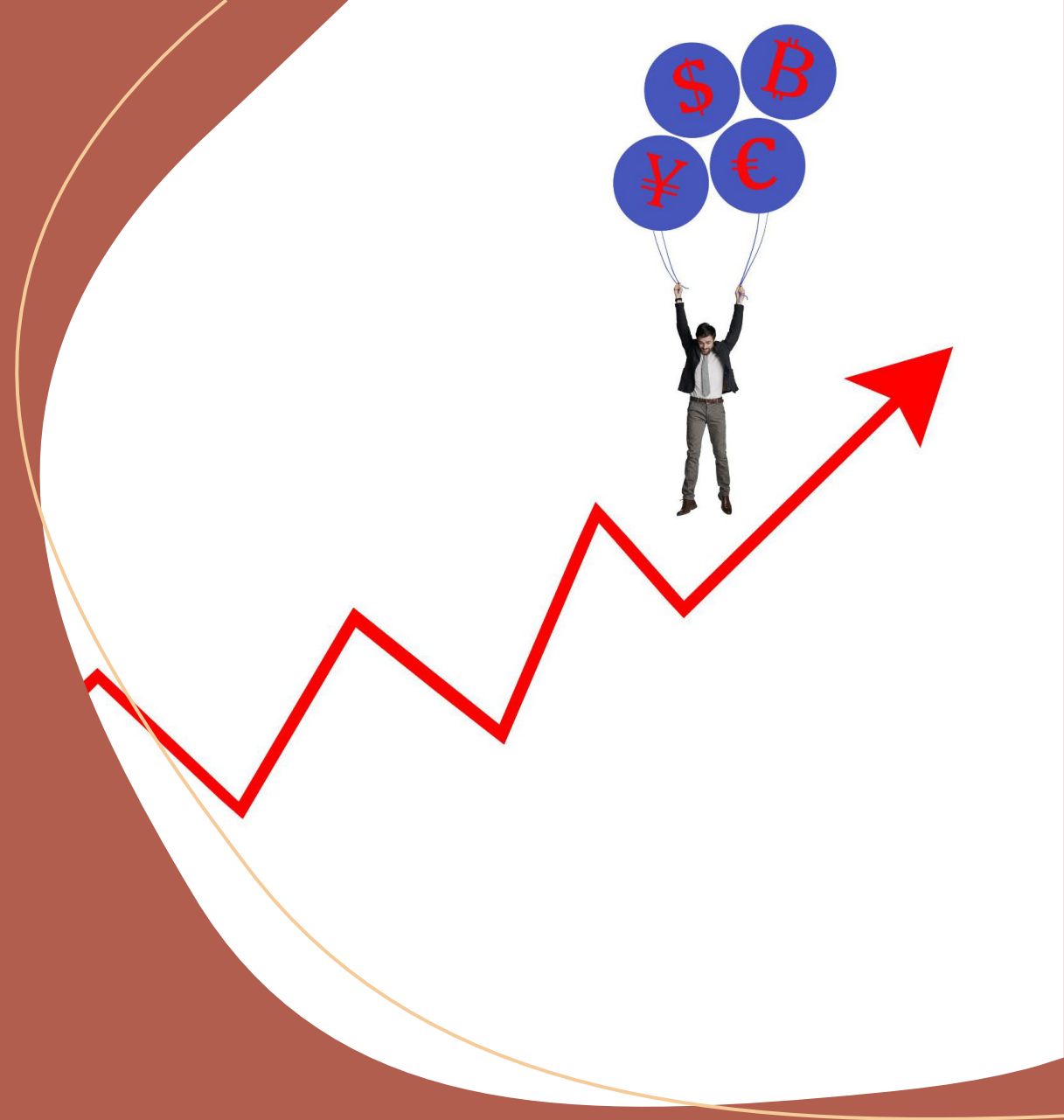
Segregation of duties is a control mechanism aimed at preventing fraud and errors by dividing responsibilities among individuals.

## Risk Reduction Strategy

By separating key tasks, organizations can significantly reduce the risk of fraudulent activities and operational errors.

## Real-World Example

An effective example is ensuring that the payment processor and the approver are different individuals to enhance security.



# Access Controls

## Purpose of Access Controls

Access controls are essential for protecting financial systems and sensitive data from unauthorized access and misuse.

## User Authentication Protocols

User authentication protocols ensure that only authorized personnel can access specific systems through methods like passwords and biometric data.

## Password Protection

Implementing strong password protection is a fundamental step in maintaining secure access to sensitive data and systems.

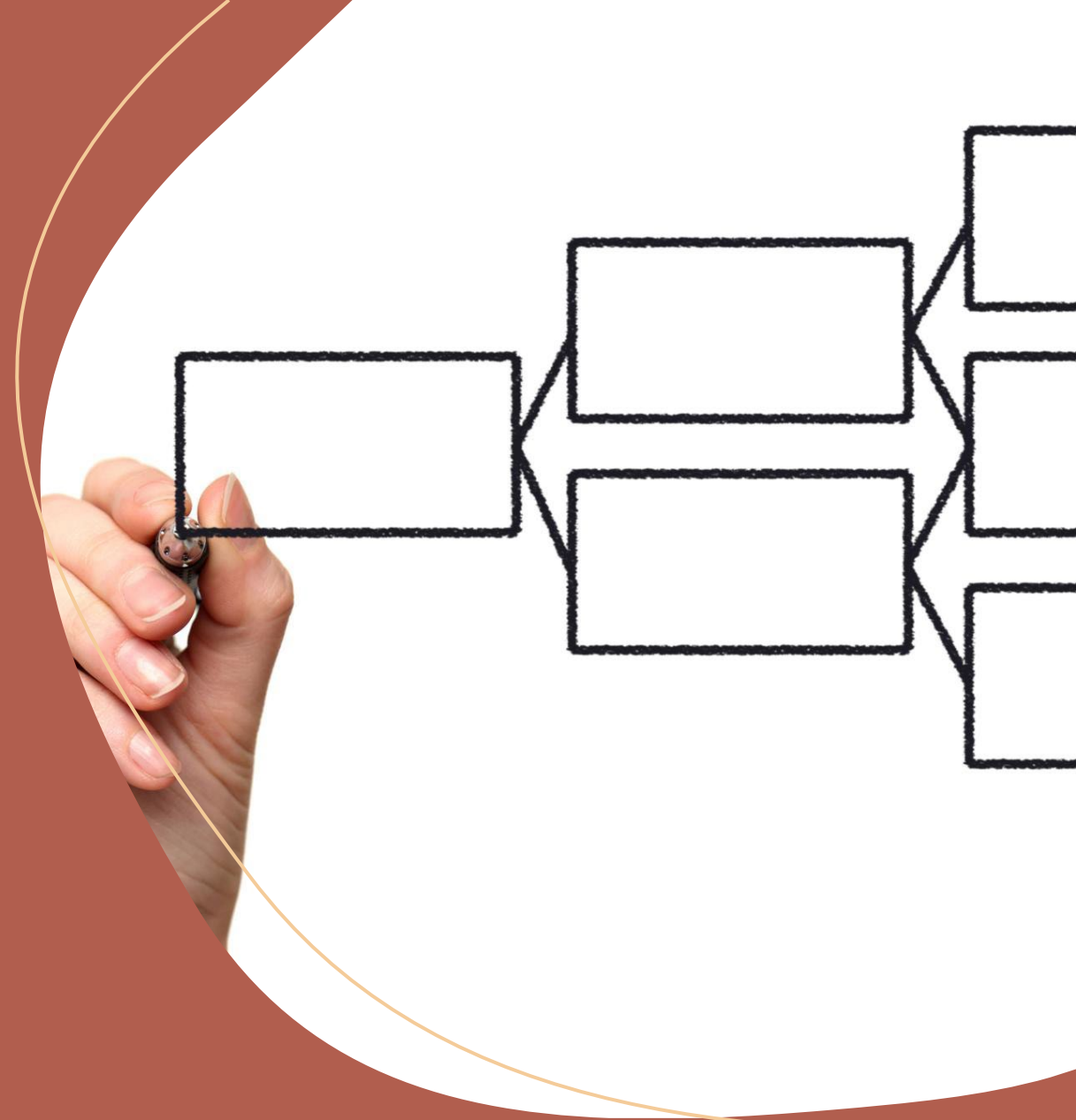


# Authorization and Approval Processes

## Importance of Clear Processes

## Review and Approval

## Risk Reduction





# Detective Controls



# Reconciliations

## Financial Record Comparison

Reconciliations are essential for comparing financial records to identify any discrepancies that may exist.

## Bank Reconciliation Process

Bank reconciliations ensure that the company's cash records accurately match the bank statements for financial accuracy.

# Internal Audits



## Accuracy of Financial Reporting

Internal audits play a crucial role in ensuring the accuracy of financial reporting, which is essential for organizational integrity.



## Compliance with Policies

Audits ensure that organizations comply with established policies, helping to mitigate risks and avoid legal issues.



## Identifying Weaknesses

Regular internal audits help identify weaknesses in internal controls, providing recommendations for improvements and enhanced operational efficiency.

# Variance Analysis

## Performance Comparison

Variance analysis focuses on comparing actual performance against budgeted figures, providing a clear view of financial health.

## Identify Significant Variances

By pinpointing significant variances, organizations can understand where discrepancies occur and address them effectively.

## Investigate Discrepancies

Investigating the reasons behind variances enables organizations to make informed decisions and improve future budgeting.





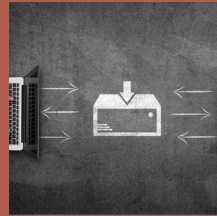
# Corrective Controls

# Backup and Recovery Procedures



## Importance of Backups

Regular backups are essential for protecting data against loss due to accidental deletion, hardware failure, or cyberattacks.



## Recovery Process

A well-defined recovery process ensures that data can be restored quickly and efficiently, minimizing downtime for businesses.



## Business Continuity

Backup and recovery procedures are vital for maintaining business continuity during unexpected data loss events.



# Disciplinary Actions

## Deterrent Against Misconduct

Disciplinary actions serve as a deterrent for employees against misconduct and non-compliance with internal controls.

## Clear Policy Guidelines

Establishing clear policies and guidelines is essential for outlining the consequences of violations and ensuring compliance.

# Error Correction Processes

## Purpose of Error Correction

Error correction processes ensure that any identified errors are promptly addressed, maintaining the integrity of financial records.

## Timeliness in Corrections

Timely rectification of errors is crucial in financial reporting, preventing misstatements and inaccuracies.

## Reliability of Records

Maintaining error-free financial records enhances reliability and trust in financial statements.





# Management Controls

# Policies and Procedures

## Clarity in Expectations

Comprehensive policies help clarify what is expected from each employee, reducing confusion in the workplace.

## Promoting Consistency

Consistent policies ensure that all employees are treated equally and fairly, fostering a positive workplace culture.

## Accountability Measures

Policies and procedures establish accountability by outlining responsibilities and consequences for actions.





# Training Programs

## Understanding Roles

Regular training helps employees clearly understand their roles related to internal controls, enhancing overall performance.

## Enhancing Compliance

Training programs are essential for ensuring compliance with regulations, thereby fostering a culture of accountability.

## Reducing Errors

Effective training minimizes the risk of errors in processes by equipping employees with necessary knowledge and skills.

# Codes of Conduct

## Definition of Code of Conduct

A code of conduct defines the ethical standards that guide employee behavior within the organization.

## Reference for Decision-Making

It serves as a reference for employees to make informed decisions while adhering to organizational values.

## Maintaining Integrity

A well-defined code helps in maintaining integrity and accountability among employees.





# Compensating Controls

# Management Review

## Purpose of Management Review

Management reviews aim to assess the effectiveness of internal controls and ensure compliance with organizational standards.

## Regular Oversight

Regular oversight by senior management allows for the identification of issues and ensures timely resolutions to improve operations.

## Facilitating Adjustments

Management reviews facilitate necessary adjustments and improvements based on performance evaluations and feedback.



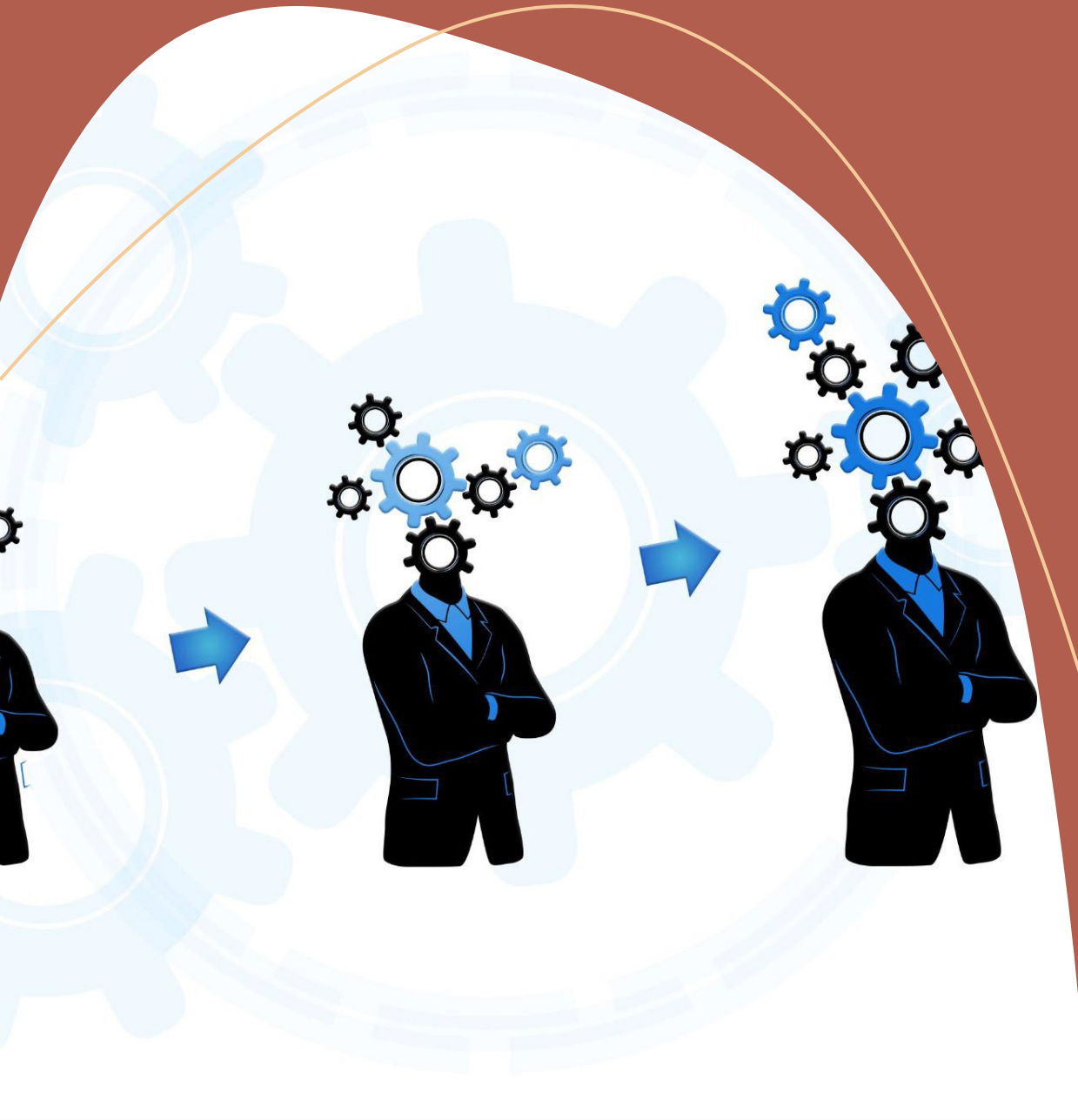
# Oversight Functions

## Role of Compliance Committees

Compliance committees monitor adherence to internal control policies, promoting accountability within the organization.

## Ensuring Accountability

Oversight functions are essential for ensuring accountability and maintaining trust within organizational operations.



# Alternative Checks and Balances

## Peer Reviews

Peer reviews serve as an effective tool for enhancing accountability and improving internal processes within organizations.

## Cross-Departmental Audits

Cross-departmental audits can uncover discrepancies and promote a culture of transparency and collaboration among teams.

## Mitigating Risks

Implementing these alternative checks and balances helps organizations identify and mitigate potential risks effectively.



# Conclusion

## Importance of Internal Controls

Internal controls are essential for maintaining organizational integrity and security, protecting assets and ensuring compliance.

## Types of Internal Controls

Organizations can implement various types of internal controls including preventive, detective, corrective, management, and compensating controls.

## Risk Management

Effective internal controls help in managing risks effectively and ensuring compliance with regulations and standards.