

Why all the fuss about Internal Controls?

Wendy Collins



One embittered and rueful former CEO will spend a few days in Court next month, hoping that an ex-employee is found guilty of fraud. Over recent years he had placed total trust in his Accounts Clerk. He had given her increased access to the business bank accounts, credit cards and all things financial. He never guessed that she was fleecing his company of hundreds of thousands of dollars, to support her greed and her gambling addiction. She had devised a clever system of raising false invoices to fictitious companies, for work never done, and then paying the 'amounts due' into her own bank accounts.

That ex-CEO now works three jobs, trying to recoup his losses, and is desperately attempting to avoid bankruptcy. When he was asked how the employee had managed to get around the internal controls in his business, he said, "That's the problem. I didn't have adequate internal controls. I've certainly learnt the hard way!"

Any organisation, whether a small business, a not-for-profit organisation, a multi-national

corporation, or a public or private school, needs internal controls. School principals (and their delegate bursars, or finance managers), play an important role in developing and monitoring financial controls as part of their overall school governance systems.

Internal controls are the "processes and procedures that ensure the effectiveness and efficiency of an organisation's operations". (Department of Education & Training, State Government of Victoria) The Queensland Government policy on *Financial Practices in Schools and Other Education Centres*, states that schools are to have "effective, efficient and economical financial practices and are also required to ensure their governance arrangements support effective decision making, planning and communication within the community" (Department of Education and Training, Queensland Government). Similar policies are common in most Australian school authorities. Those policies place an onus on principals and their delegates to have a current knowledge of financial practices

and to ensure that systems of internal control are developed, maintained, reviewed, revised and reported.

Such controls ensure that money coming into the school is being recorded correctly; that expenditure is being spent as planned; that the school's assets are safe; and that the governing body, (Government or Council/ Board of Directors) can rely on the accuracy of any financial information it receives. Internal Controls assist in managing a variety of financial risks and reducing the likelihood of fraud. The following are some broad classifications of major types of internal controls, with some relevant examples:

1 Organisational and personnel

Every school should have clear, unambiguous position descriptions for administrative tasks, with the accounting functions separated from other functions. Staff should have sufficient training and be given appropriate professional development opportunities. Duties should be rotated from time to time where possible, with an

insistence that staff must take annual leave. Potential fraud can be indicated where a staff member does not take more than a few days' leave at a time. The likelihood of embezzlement being detected will be reduced, if the fraudster is rarely absent and no one else is ever required to do their job.

2 Separation of duties

Split any tasks which, if combined, would enable one individual to both process and record complete transactions. For example, don't have the same person responsible for collecting debts and receipting money; or even worse, preparing invoices, approving all the payments, signing all the expenditures out of the bank, and recording the transactions in the accounting records.

3 Physical controls

Approval for purchase of assets should only be given if it aligns with the school's budget and strategic objectives. Ensure that assets are secure and accounted for. Vulnerable assets should be protected – store cash securely, and bank cash regularly. Maintain an up-to-date Asset Register including location description, supplier details, and the depreciation method utilised, for each asset. Secure IT equipment and other 'easy to steal' items, such as media equipment. Use password protection for sensitive data, files, and electronic bank access. Regularly check the adequacy of the school's insurance cover. Conduct routine maintenance checks on equipment and vehicles to avoid the inconvenience of failure or breakdown. Dispose of idle or unused assets, and record the process. Passwords should be changed regularly and data backed up daily, with a copy stored off site. Virus protection must be current.

Authorisation

The school's budget is approved by Council, Board, or Government Department and should align with the strategic plan. Develop a system for monitoring budget trends. Implement procedures to follow when purchasing goods from suppliers, which establish minimum financial thresholds, over which written quotes will be required. For example, if the job is over \$25,000, a minimum of three written quotes must be sought. Transactions should be authorised or approved by a trustworthy and responsible person. Be willing to withhold payment until the required authorisation is received. Staff will soon learn the appropriate procedures and will realise that the internal and budget control processes are to be taken seriously.

Payroll

Proper controls will ensure that only authorised employees are paid, (not

ghost employees) and that they are paid at the correct rate. Check that Tax File Number declaration forms are completed and lodged for all employed staff, and verify that the correct amount of PAYG tax is deducted. Confirm that compulsory employer contributions to superannuation are calculated correctly and that payments are submitted on time.

Overpayment of leave on termination is a common problem, if leave has been taken in the past, but never properly recorded. Develop processes ensuring that sick leave, annual leave, and other special leave are approved and recorded correctly.

Employee records should be retained in a secure, confidential location, such as a locked, fire-proof safe. Once a staff member resigns, their details should be removed from the payroll records, to prevent unauthorised continued inclusion on the payroll.

Investments

Surplus funds, which are not required immediately, can be invested to generate income for your school. The school can minimise exposure to risk by ensuring that funds are invested only into approved financial institutions.

Finally, the benefits of employing internal auditors should be seriously considered. Internal auditors are expert consultants who can provide independent, objective, assurance consultancy, by evaluating the effectiveness of the school's risk management, control, and governance processes.

References

Department of Education & Training, State Government of Victoria, 2015, Internal Controls for Victorian Government Schools, <http://www.education.vic.gov.au/Documents/school/principals/finance/Fin%20Internal%20Control%20document%20v3.2.pdf> [accessed Jan 13, 2017]

Department of Education and Training, Queensland Government, 2012, Financial Practices in Schools and Other Education Centres, <http://ppr.det.qld.gov.au/corp/finance/services/Pages/Financial-Practices-in-Schools-and-Other-Education-Centres.aspx> [accessed Jan 13, 2017]

ET

Wendy Collins is a chartered accountant and lecturer in the School of Business, at CHC Higher Education, in Brisbane. She has a Masters degree of Management, a Graduate Diploma of Education (FET) and a Bachelor of Commerce Degree. Her special interests are in accounting, management, business planning and business communication.



Help for Time-Poor Parents is Here!

Getting a Grip on Parenting Time – 86 Commonsense Lessons from the Trenches

Your time management columnist, Robyn Pearce, has drawn on lessons learnt from raising her six kids and enjoying her 17 grandchildren.

Find more about this long-awaited book, or grab your copy,
www.gettingagrip.com/parentingtime/