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Internal Controls – The Key to Quality Fiscal Management

Nancy Droesch, CPA

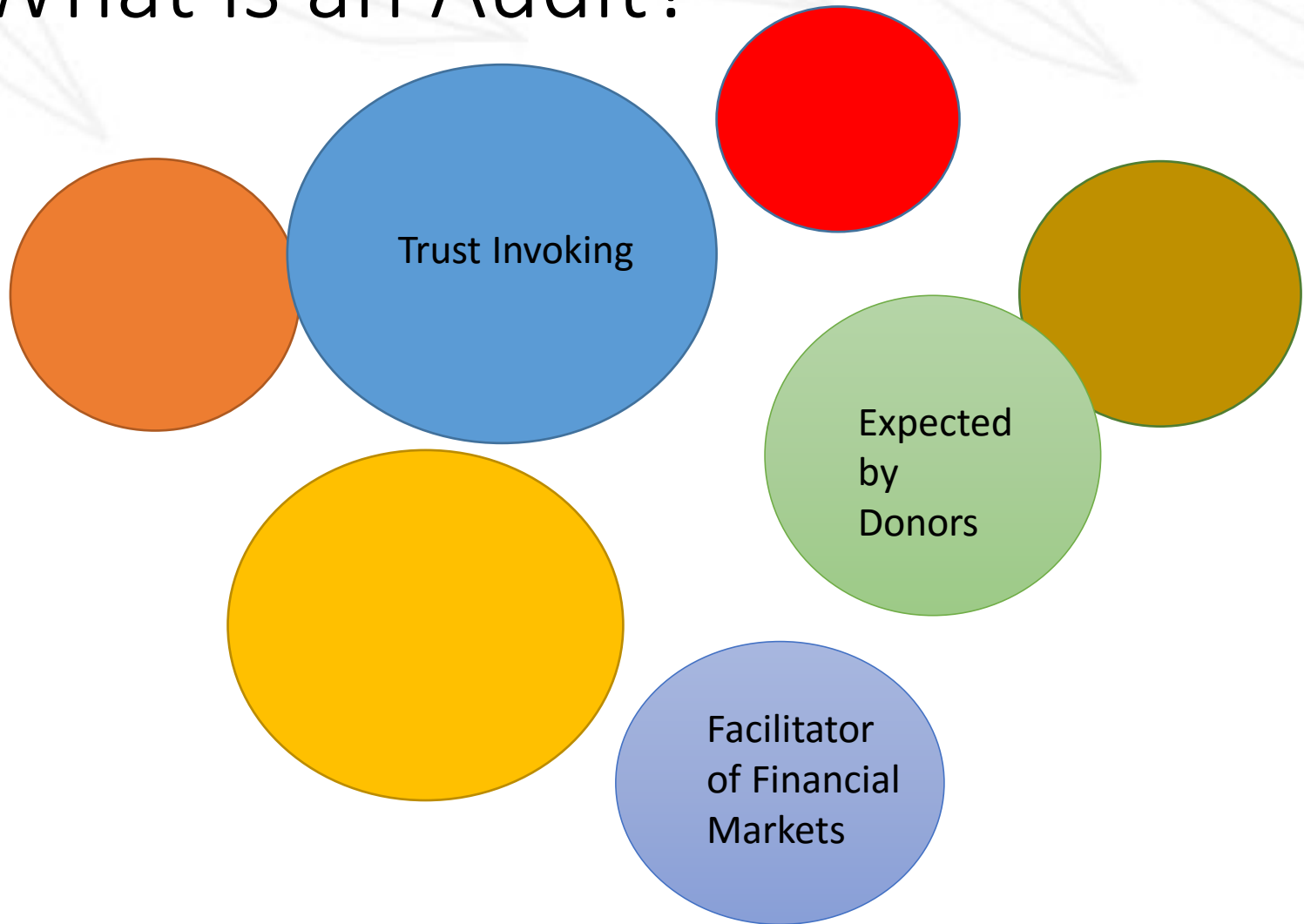
Course Objective

At the end of this course, the participants will understand the purpose of an audit and understand how they can implement internal controls to improve their financial reporting and in the process streamline the financial statement audit.

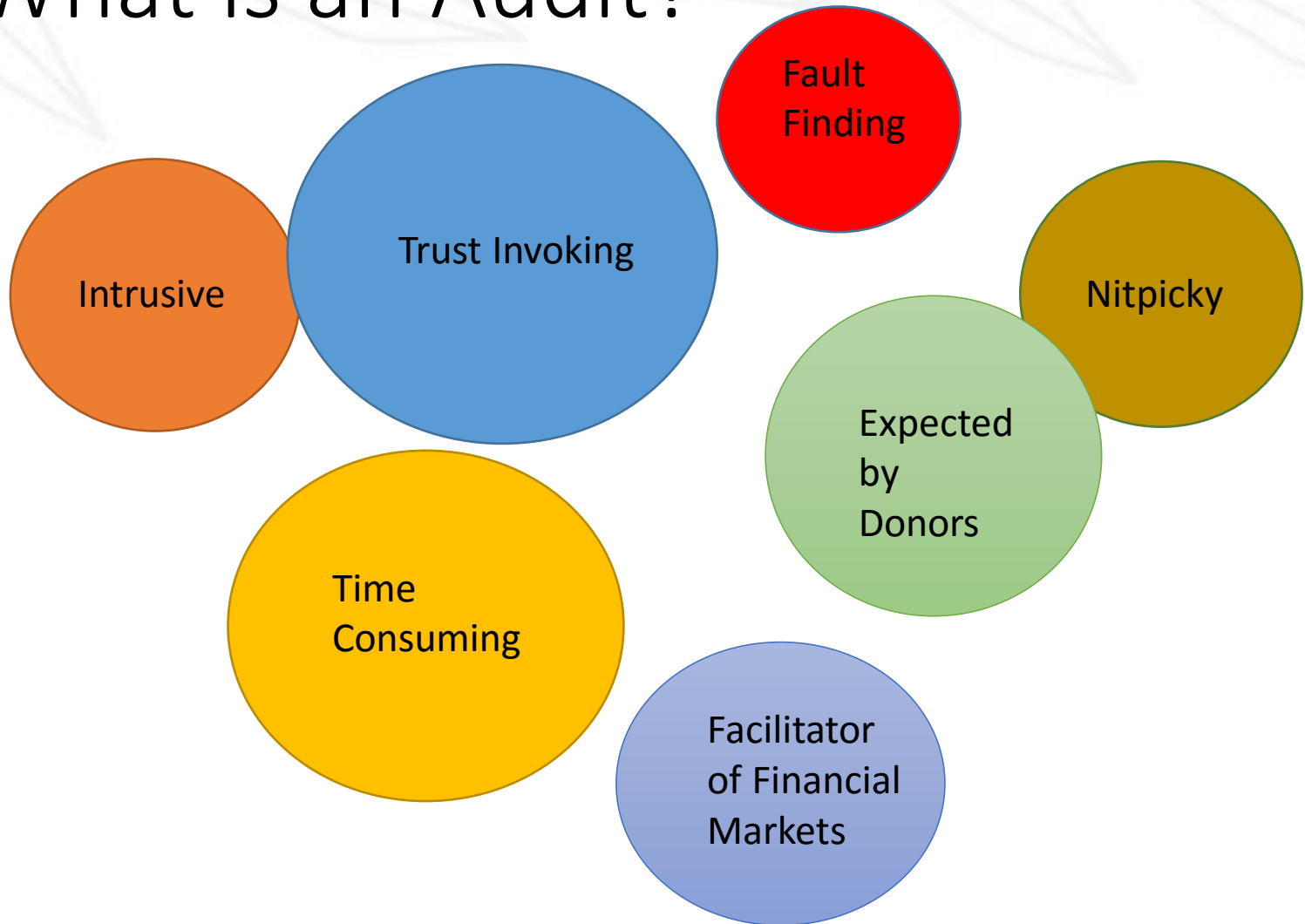
Agenda

- What is an Audit?
- Internal Controls
- The Super 6 Control Areas
- Other Financial Statement Considerations
- Questions

What is an Audit?



What is an Audit?



Audit Process

Plan

- Planning and Risk
- Risk Assessment

Execute

- Control Testing
- Substantive Testing

Report

- Conclusion
- Reporting

Who does what?

Management

- Maintain accounting records
- Implement internal controls
- Present financial statements

Auditor

- Test accounting records
- Evaluate and Test internal controls (if deemed efficient)
- Opine on the fairness of the financial statement presentation

Goals of Internal Controls

- Safeguarding Assets
- Ensuring the integrity of the Financial Statements



Summary of Assets

	7/31	8/31
CASH	11,295.33	4,440
RECEIVABLE	16,232.22	4,440
INVENTORY	5,818.12	4,440
PROPERTY	3,750.00	4,440
FIXED ASSETS	40,210.00	4,440
ACCUMULATED DEPRECIATION	(56,360.00)	(4,440)
NET FIXED ASSETS	25,380.00	4,440
LIABILITIES	25,380.00	4,440
NET ASSETS	18,960.00	4,440
TOTAL	139,660	4,440
7/31	61,500	4,440
	60,500.27	15,720
	61,751.7	

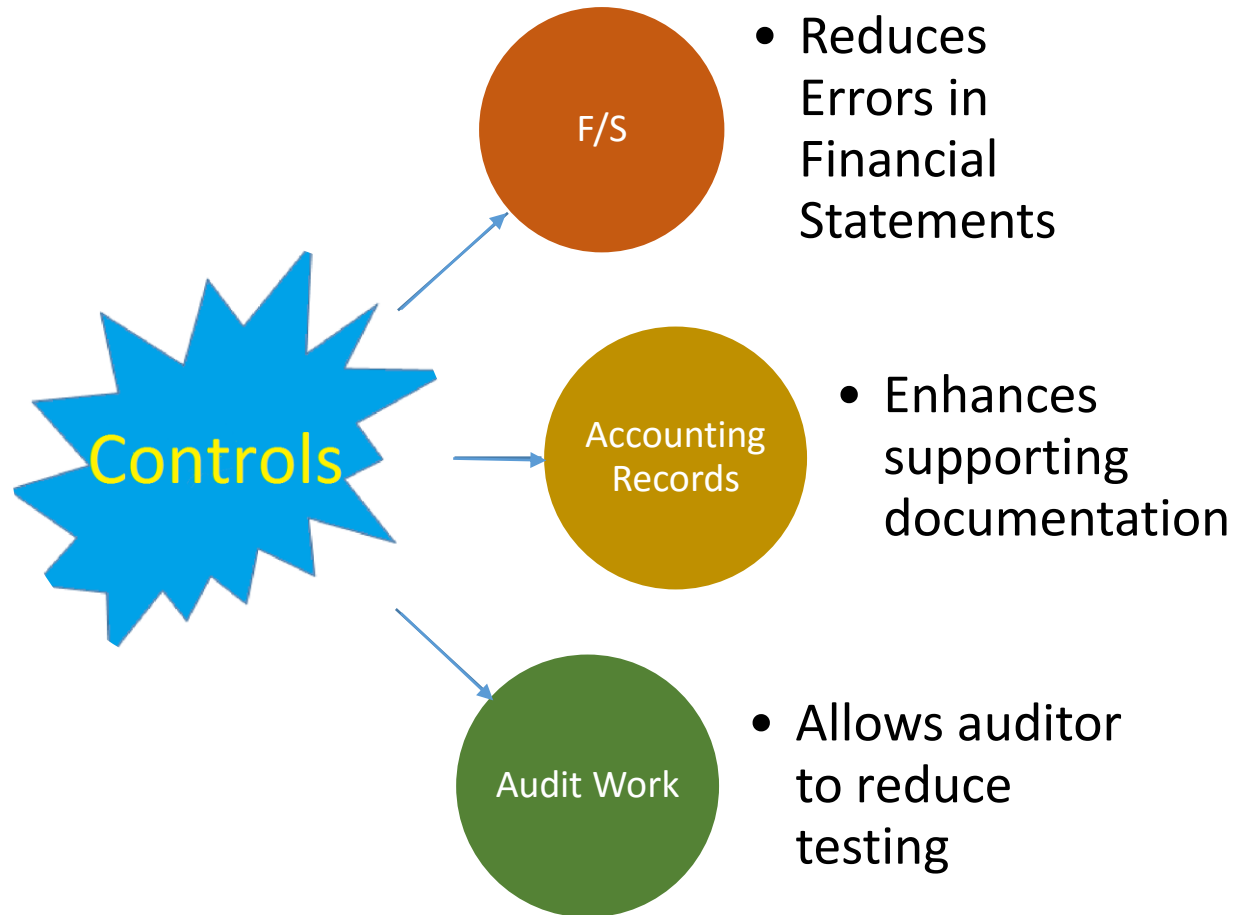
Types of Controls

- Preventive

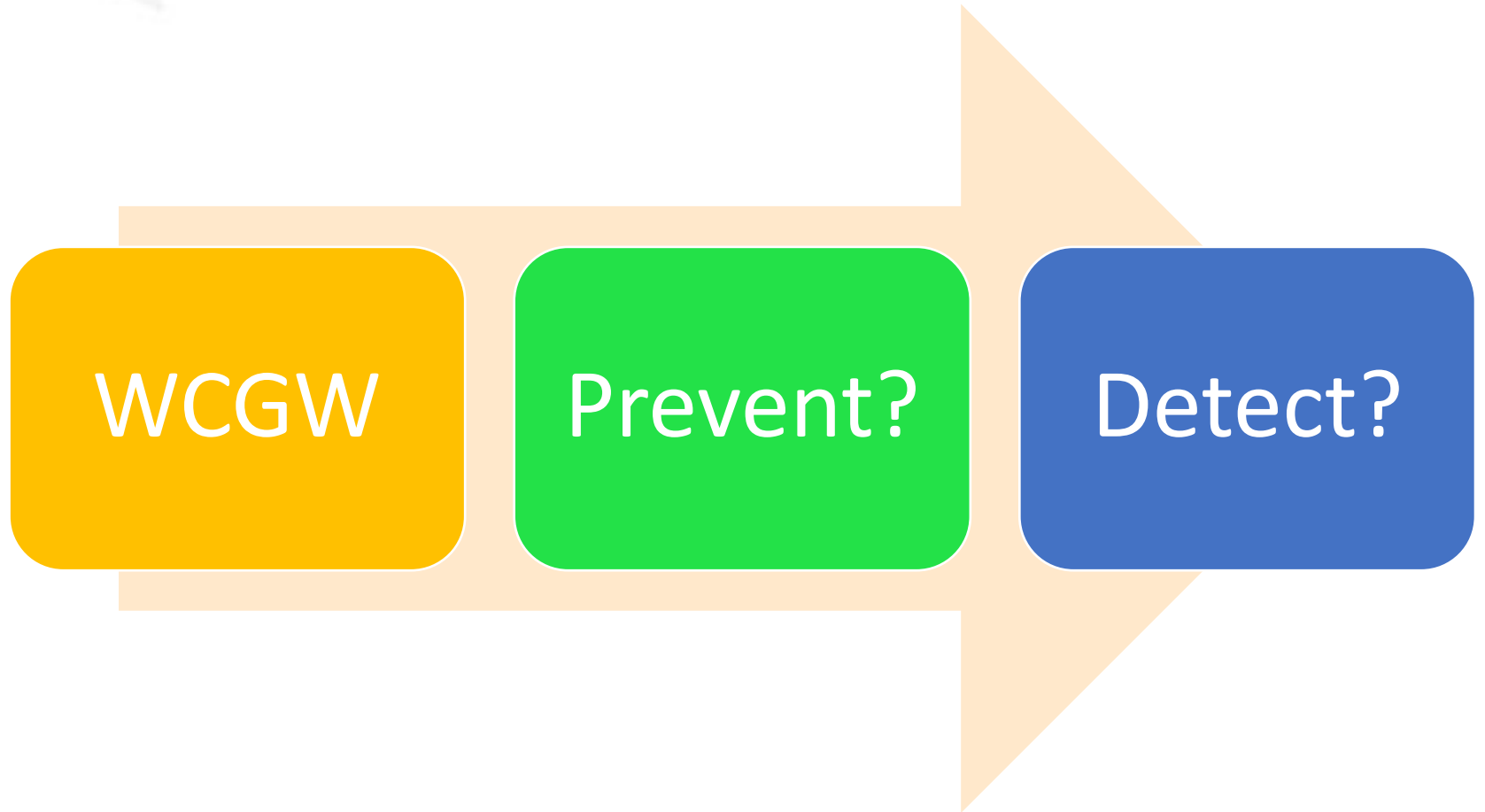


- Detective

How do Controls impact Audits?

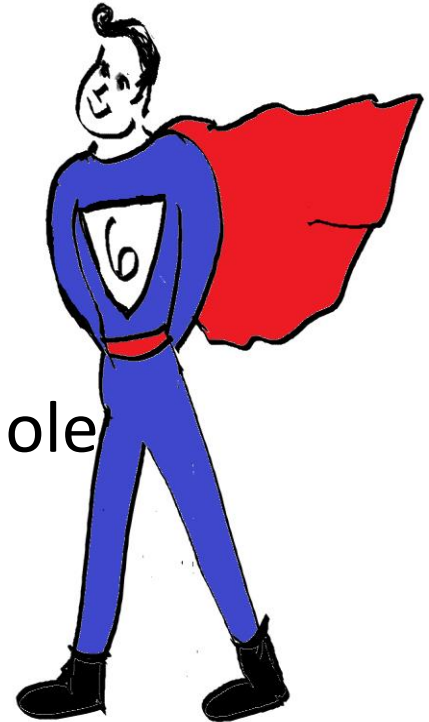


Designing Controls

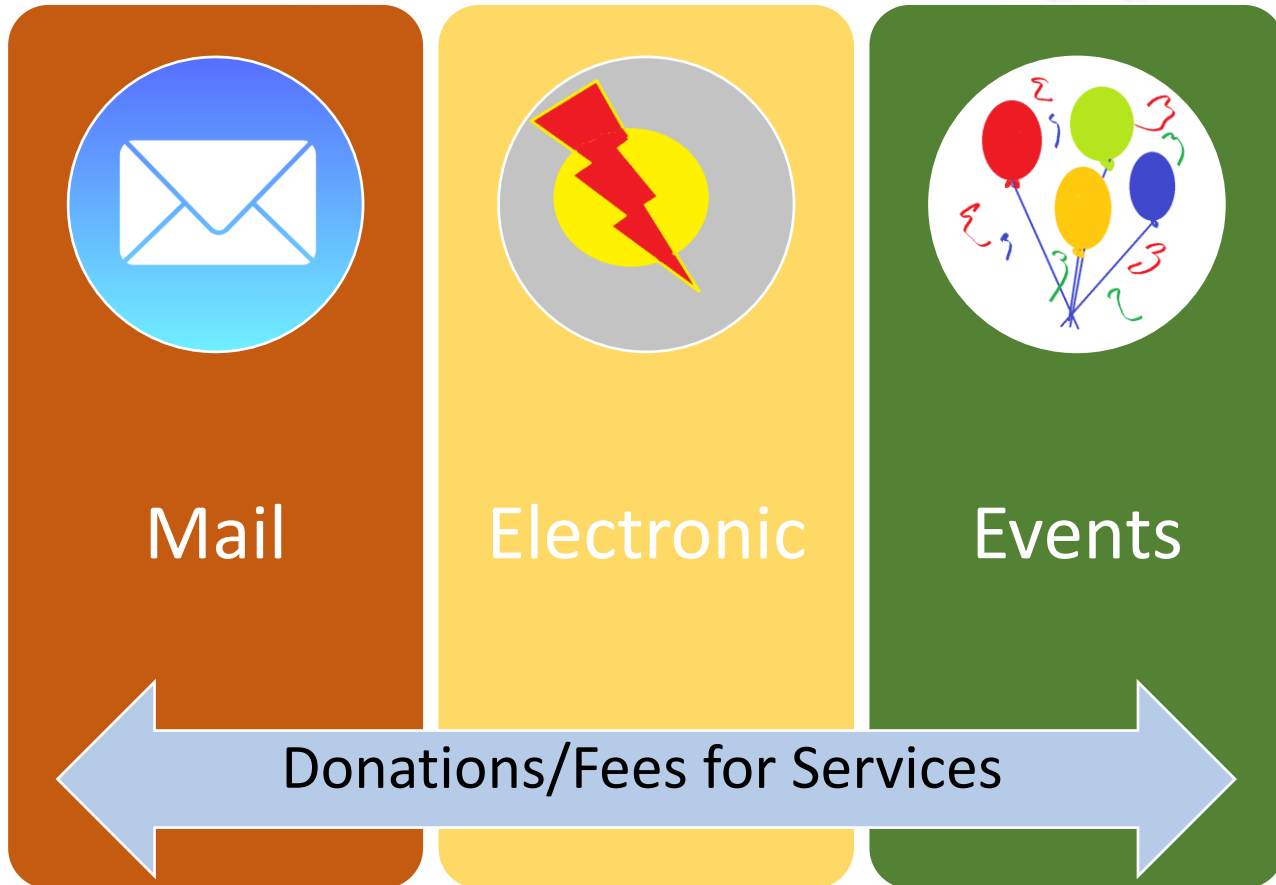


The Super Six Control Areas

1. Cash receipts
2. Cash disbursements
3. Balance sheet account reconciliations
4. Monthly financial information review
5. Judgments
6. Review of Financial Statement as a whole



Cash Receipts - #1



Cash receipts – Intercepted before recorded

- How to prevent?
 - Lockbox
 - Dual participation in opening and recording

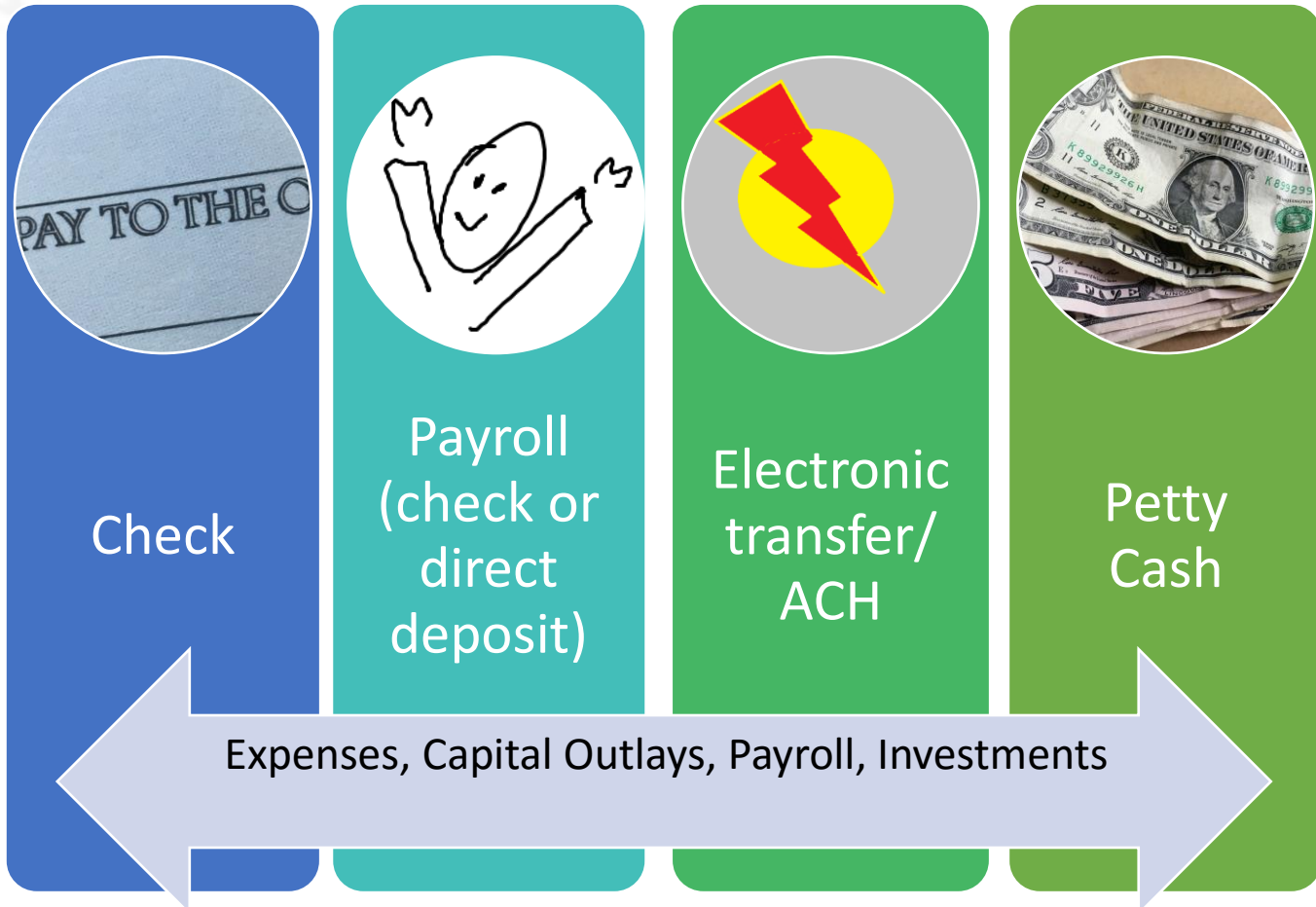
Cash receipts – Intercepted before recorded

- How to prevent?
 - Lockbox
 - Dual participation in opening and recording
- How to detect?
 - Segregation of duties
 - For contributions – between acknowledgement, recording and reconciling
 - For receivables – between write-offs, collection follow-up and reconciling
 - For events – between reconciling tickets and cash

Cash receipts – Intercepted after recording

- Segregation of duties
 - Between bank reconciliation and access to cash
 - Between accounting functions and access to cash

Cash Disbursements - #2



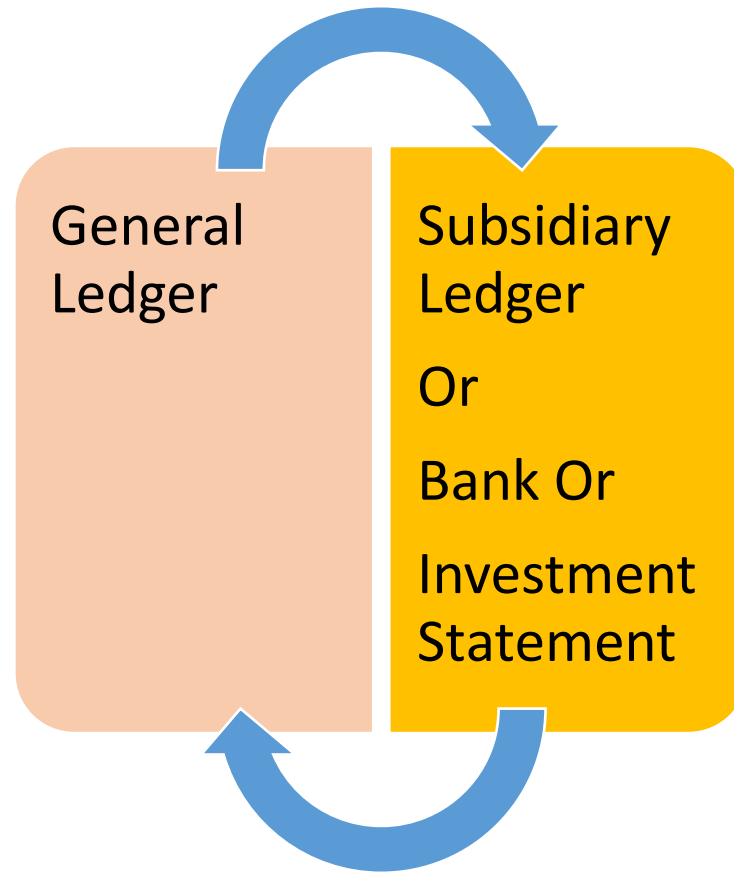
Cash disbursements

- Prevent unauthorized disbursements:
 - Limit who can:
 - Access blank checks, petty cash
 - Sign checks
 - Generate checks for payment
 - Generate electronic signature
 - Authorize electronic disbursement
 - Add vendors to the Masterfile

Cash disbursements

- Detect unauthorized disbursements
 - Segregation of duties:
 - Between ability to disburse and record keeping
 - Between ability to disburse and reconciliations
 - Review of Financial Statements, Expenses and Capital Additions

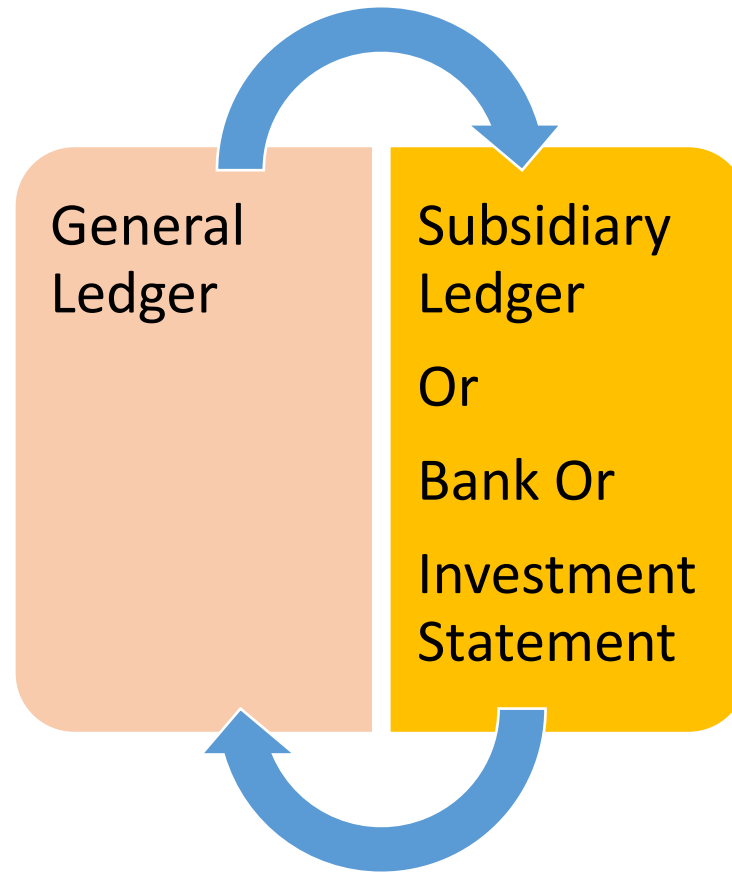
Balance Sheet Reconciliations - #3



Balance Sheet Reconciliations - #3

Detect:

- Unsupport G/L entries
- Missing sub entries

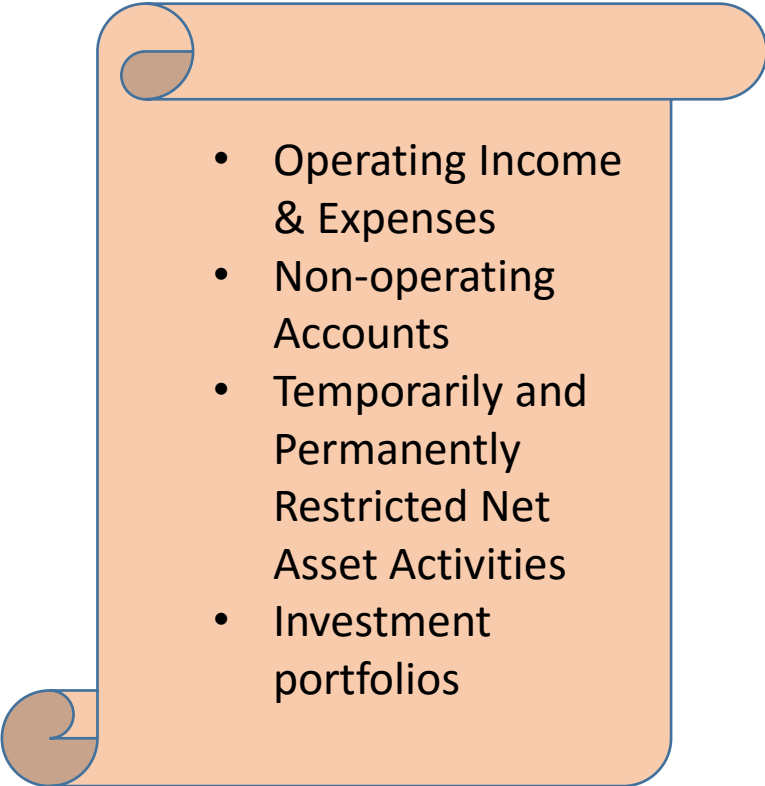


Detect:

- Missing G/L entries
- Unauthorized ledger entries

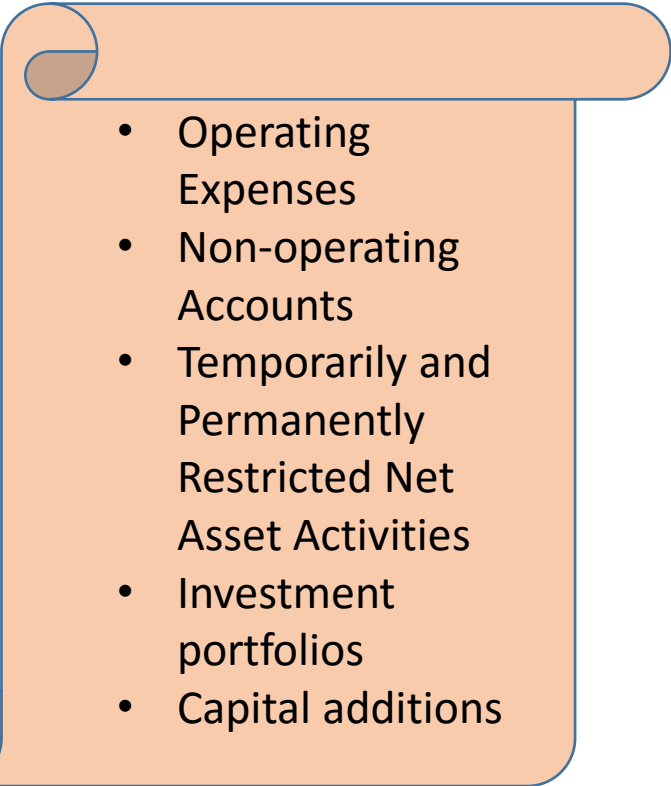
Monthly Financial Review - #4

- Include ALL

- 
- Operating Income & Expenses
 - Non-operating Accounts
 - Temporarily and Permanently Restricted Net Asset Activities
 - Investment portfolios

Monthly Financial Review - #4

- Include ALL


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- Operating Expenses
 - Non-operating Accounts
 - Temporarily and Permanently Restricted Net Asset Activities
 - Investment portfolios
 - Capital additions

- What to look for?

- Reasonableness of explanations for variances from budget or prior year
- Expected transactions
- Unusual relationships

Monthly Financial Review - #4

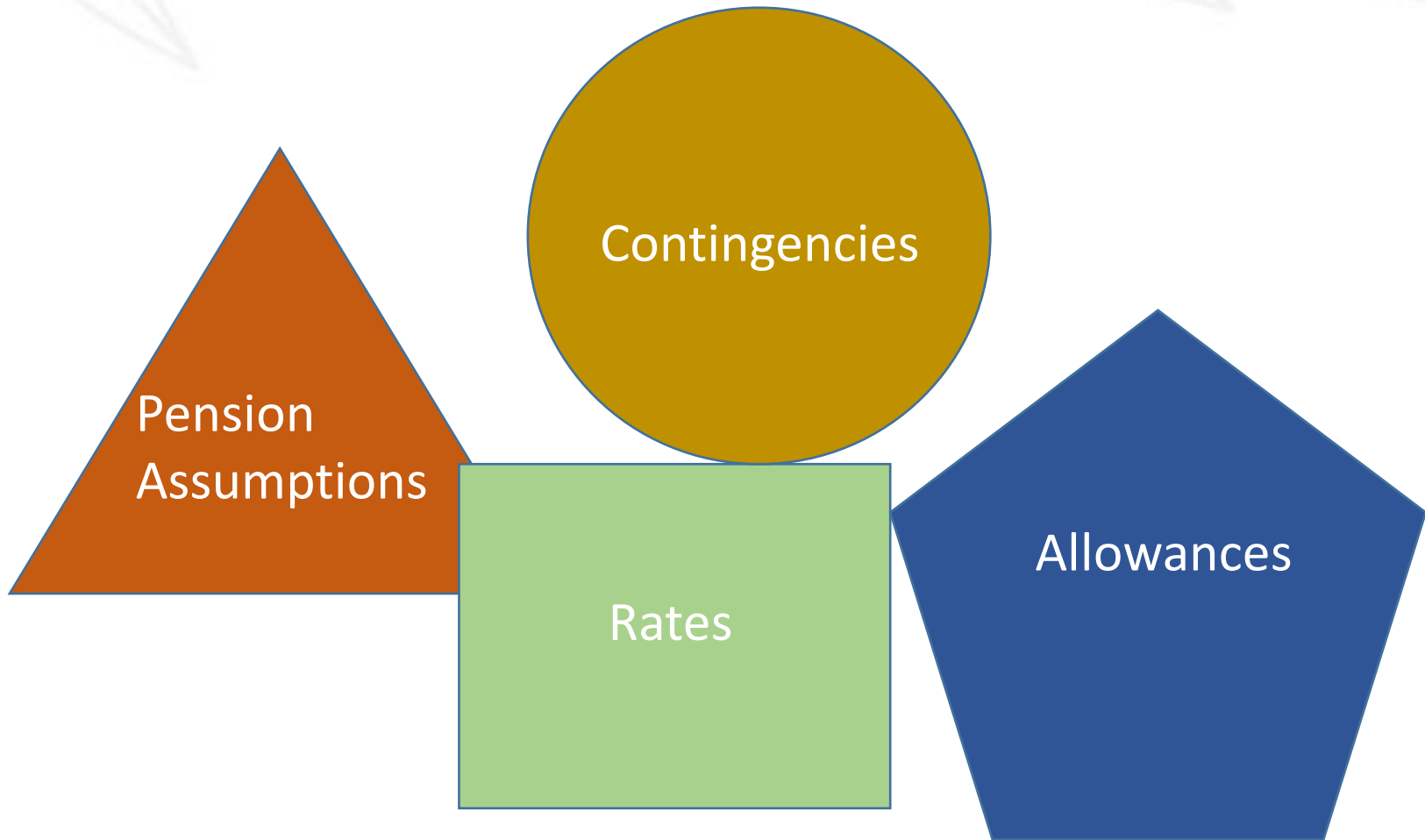
- Include ALL

- 
- Operating Expenses
 - Non-operating Accounts
 - Temporarily and Permanently Restricted Net Asset Activities
 - Investment portfolios

- What to look for?

- Reasonableness of explanations for variances from budget or prior year
 - Expected transactions
 - Unusual relationships
- Detect:
 - Misclassifications
 - Unauthorized disbursements
 - Duplicate entries

Accounting Judgments #6



Allowance for Doubtful Accounts

Derive from:

- Historical collection rates
- Subsequent collections
- Changing in the aging of receivables
- Review of each account

Don't base upon:

- Worst case scenario
- SALY (Same As Last Year)
- What feels right

Allowance for Doubtful Accounts

Derive from:

- Historical collection rates
- Subsequent collections
- Review of each account

Don't base upon:

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- SALY
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Document and Approve!

Preparation of Financial Statements - #6

- Information from General Ledger
- Information derived from general ledger (e.g. cash flow statement)
- Information from other systems:
 - Subsidiary ledgers
 - Investment statements
 - Actuary reports

Review of Financial Statements and Notes - #6

- Agree to sources
- Internal Consistency
- Compare to prior year
- Updating disclosures
 - New accounting pronouncements
 - Changes in business

What is the auditor doing?





Questions?

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