



Internal Controls Best Practices

This list includes the most common internal controls applied by small to medium sized businesses to their operations. It includes controls that apply to the processes most businesses have in common – protecting physical assets, handling cash etc. Naturally each business will also have its own industry specific processes and regulations that it needs to comply with and each of these will need controls particular to it developed also. Not every control listed needs to be implemented – some of the suggestions here overlap each other or incorporate others. Select them as suitable to the size and operations of a particular business.





BEST PRACTICE	WE DO THIS? Y/N	COMMENT
PHYSICAL ASSETS		
Use physical security protection measures such as locks on premises, the use of security cameras and retaining a security service		
Keep smaller valuables in a safe		
Lock small but valuable items to desks		
Provide access codes to employees on a need to know basis		
Maintain an asset register with all relevant details of each asset		
Perform a regular asset register audit		
Take out appropriate insurance coverage		
Review insurance coverage details regularly		
IT SYSTEMS AND DATA SECURITY		
Use passwords to limit access to business records		
Change computer passwords regularly		
Install firewalls, anti-virus software and other protective devices on computers		





Develop written policy guidelines on personal use of IT equipment		
FINANCIAL DATA INTEGRITY		
Use sequentially numbered business forms (such as on checks, sales orders, invoices etc.) to provide an audit trail		
Perform reconciliation of accounts regularly		
Develop automated controls such as valid date ranges or dollar value limits		
Implement budget and cash flow projection reports and a regular comparison of budgeted against actual figures and investigate any significant discrepancies		
Segregate the duties involved in financial transactions such as ordering, recording and paying for purchases		
Assign particular responsibilities to particular people		
Institute supervisor level checking of financial records		
Build in validation checks to processes, for instance checking invoice totals against the individual items on the invoice to ensure correctness		
Carry out exception routines such as spot checks or reviews		
Develop a hierarchy of spending level approval authority		
Rotate duties involved in financial transactions and recording such as petty cash and receipting		
Keep sufficient financial record details to provide useful management information e.g. double entry bookkeeping		





Maintain books and records up-to-date and balanced		
Ensure employees with financial functions take their annual vacations		
Develop a records retention schedule		
ACCOUNTS RECEIVABLE		
Develop and document a credit approval/balance limit policy; include information on who must authorize new applications		
Conduct credit checks on new credit customers		
Develop an aged accounts procedure that includes regular reporting and follow up on aging accounts		
Record credit purchases as soon as the transaction occurs		
Keep the duties involved in accounts receivable separate from cash receipting		
Have transactions such as non-cash credits and write off of bad debts cross checked		
Review credit balances on a regular basis		
Use numerical or batch processing controls over billing		
Cross check early payment discounts and penalties on overdue accounts		
Ensure mailing of accounts cannot be tapered with and		
Separate mailing duties from statement preparation duties		
Prepare trial balance of individual accounts receivable regularly		





Reconcile trial balances with general ledger control accounts		
ACCOUNTS PAYABLE		
Develop and document a purchasing and accounts payable procedure including authorization levels and any price comparison requirements prior to purchase		
Pay on original invoices only to avoid duplicate payment		
Mark paid invoices to prevent resubmission or double payment		
Set payment amount authorization permissions		
Separate the duties of handling refund checks from suppliers from invoicing duties		
Check invoices from suspect sources e.g. businesses with only a post office box address		
Separate the duties of approving new suppliers from responsibility for payment of their invoices		
Check the record of supplier billing each month and investigate any suspicious activity e.g. rapidly increasing purchases from one vendor		
Carry out random checks of the invoices of individual suppliers		
Investigate invoices for poorly defined services e.g. listing the business in a directory		
Develop a process that brings together the purchasing order and receiving reports, along with the check for payment, for review before signature		
Develop a procedure that ensures direct shipments to customers are properly billed		





to them		
SALES		
Develop and document a pricing and discounting policy including authorization to vary rules		
Check sales figures against their individual source such as invoices		
If salespeople work on commission ensure that their sales figures are valid		
Don't pay commissions to salespeople until monies are received		
Reconcile sales register records with cash takings and credit card receipts		
Dispatch goods COD or with a copy of the invoice		
Require evidence of delivery		
Record orders on pre-numbered forms		
Compare sales invoices to shipping documents before dispatching		
Record sales invoices promptly		
Have customer complaints handled independently of the sales department		
HANDLING CASH AND CHECKS		
Keep check books in secure storage		
Use pre-numbered checks		





Endorse checks 'for deposit only'		
Enter check details in a way to prevent easy alteration		
Maintain a check register and review checks against it regularly but at varying (unpredictable) intervals		
Mutilate voided checks before disposing of them		
Use a cash register to keep a record of cash sales		
Balance cash tills daily or more regularly according to the amount of cash handled		
Balance cash at the end of each shift where another employee is taking over transactions		
Post cash receipts to appropriate journals promptly		
Deposit cash receipts regularly to minimize the amount on hand		
Reconcile bank accounts monthly and give check related duties to separate employees e.g. reconciliation, check authorization, mail opening, writing deposit slips, banking		
Separate duties for cash disbursement and purchases from the approval process		
Conduct audits on a varying (unpredictable) schedule and do not warn employees of the date		
Impose a limit on the amount of petty cash held and the money value limit of petty cash purchases		
Require that petty cash reimbursement requests be for pre-approved purchases only and supported by approved types of documentation		





Keep petty cash in a secure repository		
Require a second signatory for petty cash disbursement		
Periodically have petty cash audited by a person separate from the person who pays out from petty cash		
RECEIPT OF GOODS		
Inspect goods for condition at time of receipt		
Check goods against order before approving payment		
Use pre-numbered receiving dockets		
Pass invoices to accounts for payment promptly		
Develop and document a procedure for dealing with partial receipt and claims for damaged goods		
PAYROLL		
Maintain security over payroll system passwords and change them regularly		
Review bank account deposits to ensure that each pay goes to a different bank account		
Separate payroll preparation, disbursement and distribution duties		
Check payroll budgeted figure against payroll actual figure and investigate variations		
Maintain accurate employee attendance records		
Reconcile salesperson's commission records with their records of sales		





Maintain complete and accurate payroll records for holiday and sick leave entitlements and leave used		
Use direct bank deposits for pays		
Ensure that more than one person can process the payroll		
Separate the duties of personnel records management and payroll		
Develop and document a policy on allowable payroll deductions and who can authorize them		
Maintain security over attendance recording systems		
Periodically review the payroll register against actual employees		
COMPETENT AND ETHICAL EMPLOYEES		
Develop a competency based hiring policy		
Run reference checks on job applicants to ensure they do have the essential qualifications and skill level required by the position		
Ensure new employees are adequately trained in routines and procedures		
Provide adequate employee supervision		
Implement a performance management system		
Provide clear job description and role responsibility documentation for employees		
Develop lines of communication with employees such as suggestion boxes, team meetings etc.		





Bond employees who deal with sensitive information		
Provide employees with a copy of the internal control system policy explaining its value to the business and the consequences of non-compliance		
Institute a confidentiality guaranteed employee feedback mechanism		
COMPLIANCE WITH EXTERNALLY IMPOSED LAWS AND REGULATIONS		
Develop policies on, and where possible assign responsibility for compliance with, particular legislative requirements e.g. by using fire wardens, an occupational safety and health officer etc.		
Implement physical controls to prevent accidents		
Develop registers to record government mandated information requirements e.g. chemical spills		
Create a schedule for preparing and submitting mandated information or reports		

