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Internal Audit

Maintaining a Strong Control Environment

Part 1 – The Control Environment at Queen’s
Agenda

- Definition and Purposes of Internal Control
- The Control Environment at Queen’s
- Control Processes
- Consequences of Poor Control
“Any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved.”

Source: Institute of Internal Auditors
Purposes of Internal Control

**Internal Control is a process** to help us understand the risks we are exposed to, put controls in place to address risks, and effectively pursue our objectives, including:

- effective and efficient processes,
- reliable financial reporting,
- compliance with laws, regulations and policies.

**Controls** are a means by which the uses of our limited resources are directed, monitored, and measured.
In other words...

**Internal Controls** help by enabling us to make the things we want to happen, happen and the things we don’t want to happen, not happen.
Internal Control at Home

- **Lock** your home and vehicle.
- **Review** bills and credit card statements before paying them.
- **Expect** children to ask permission before they can do certain things.
Internal Control at Work

- **Sensitive** information and offices are locked each evening.

- **Computer** passwords are periodically changed and aren’t written down.

- **P-Card** transactions are checked against source documents.

- **Authorization** is required for certain activities.
Example: Internal Controls for Petty Cash

Objective(s): maintain accurate Petty Cash floats, ensure sufficient cash is on hand and control the risk of theft.

Internal Controls:
- limit access to those needing it,
- give receipts and record transactions,
- assign responsibilities,
- lock the cash away when not in use.
An internal control system, no matter how well designed and operated, can provide only reasonable - not absolute - assurance to management and the Board regarding achievement of objectives.
The likelihood of achievement of objectives is affected by limitations in internal control processes;

- **Human error** in operation of processes,
- **Controls** can be circumvented by the collusion of two or more people,
- **Management** might have the ability to override the system.
Control Processes

S – Segregation of Duties
O – Organizational
A – Authorization
P – Physical
S – Supervision
P – Personnel
A – Arithmetic/Accounting
M – Managerial
Control Processes (Cont’d – 2)

**S** – Segregation of Duties – the same person should not be solely involved in all aspects from start to finish.

**O** – Organizational – Policies are in place that are up to date, clear and effective.

**A** – Authorization – activities and actions are preauthorized by the right people at the right time.

**P** – Physical – threats to the physical security of people and assets are controlled.
Control Processes (Cont’d – 3)

S – Supervision – appropriate supervision is in place to keep track of tasks.

P – Personnel – staff are appropriately supported with training and recruitment exercises ensure that the right people are employed.

A – Arithmetic/Accounting – checks are made on accounting records and additions/calculations are correct.

M – Managerial – the organization has clear lines of reporting and authority, targets, budgets and expectations.
Example: P-Card

S – Segregation of Duties – segregation between payment and review and approval of reconciliation.

O – Organizational – clear and accessible policy applies to all.

A – Authorization – transactions, claims and statements are authorized.

P – Physical – the card is kept secure when not in use.
Example: P-Card (Cont’d)

**S – Supervision** – transactions are reviewed by a supervisor.

**P – Personnel** – training and support is provided to staff where needed.

**A – Arithmetic/Accounting** – transactions are reconciled to ensure they are correct and complete.

**M – Managerial** – reporting lines and accountabilities and authority is clear in terms of who can do what.
Consequences of Poor Control

Controls are there to help us in our day to day work:
- avoid mistakes and re-work,
- save time and work efficiently,
- work with confidence, clarity and consistency,
- provide a means to direct our activities and tasks.

Controls are there to help the university:
- achieve its objectives,
- provide effective reports on how we are doing,
- stay compliant with policies and regulations,
- use its limited resources in an efficient, economic and effective manner.
Failure to recognise and control risks might ultimately result in:

- reputational damage,
- financial losses,
- legal action,
- inefficient Processes,
- poor morale, loss of staff.

For example, improper hiring practices might result in negative press interest, or failure to adhere to funding agency requirements might mean a loss of research funds.
How may we help you today?

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