

## 2012 Internal Controls Best Practices Checklist

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This list includes the most common internal controls applied by small to medium sized businesses. Internal controls are regular measures (such as reviews, checks and balances, methods and procedures) created to:

1. Conduct business in an orderly and efficient manner,
2. Protect assets and resources,
3. Prevent and detect errors, fraud, and theft,
4. Ensure accurate and complete accounting data,
5. Produce reliable and timely financial and management information, and
6. Ensure adherence to its policies and plans.

Each business will also have its own industry-specific processes and regulations that it needs to comply with. Each of these will also need controls developed.

**NOTE:** *You may not need to implement every control listed.* Select them as appropriate to the size and operations of your particular business.

Once you've completed the checklist, we would be glad to review it with you and provide helpful tips and suggestions for your business situation. Please contact Stephanie Artino via phone (360)733-1010 or email: [stephaniea@metcalfhodges.com](mailto:stephaniea@metcalfhodges.com).

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BEST PRACTICE	WE DO THIS (Y/N)	COMMENT
<b>Physical Assets</b>		
Use physical security protection 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		
<b>IT Systems and Data Security</b>		
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		
<b>Financial Data Integrity</b>		
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 budget 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 review of financial records		

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Include validation checks in processes. For instance, checking invoice totals against the individual items on the invoice to ensure accuracy		
Perform "exception" tests, such as spot checks or reviews		
Develop a hierarchy of authority for spending level approvals		
Rotate duties involved in financial transactions and recording such as petty cash and receipts		
Keep sufficient financial record details to provide useful management information. e.g. double entry bookkeeping		
Maintain books and keep records up-to-date and balanced		
Ensure employees with financial functions take their annual vacations		
Develop a records retention schedule		
<b>Accounts Receivable</b>		
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 receivable procedure that includes regular reporting and follow up on aging balances		
Record credit purchases as soon as the transaction occurs		
Keep the duties involved in accounts receivable separate from cash receipts		
Have transactions such as non-cash credits and write-off of bad debts reviewed and approved		
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 receivable cannot be tampered with		

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BEST PRACTICE	WE DO THIS (Y/N)	COMMENT
Separate mailing duties from statement preparation duties		
Prepare trial balance of individual accounts receivable regularly		
Reconcile trial balances with general ledger control accounts		
<b>Accounts Payable</b>		
Develop and document a purchasing and accounts payable procedure including authorization levels and 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 authorization for payment amounts		
Separate the duties of handling refund checks from suppliers from entering invoices		
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 purchase 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		

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<b>Sales</b>		
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 from customers		
Reconcile sales register records with cash 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		
<b>Handling Cash and Checks</b>		
Keep check books in secure, locked 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		

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BEST PRACTICE	WE DO THIS (Y/N)	COMMENT
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 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 signature for petty cash disbursement		
Periodically have petty cash audited by a person separate from the person who pays out from petty cash		
<b>Receipt of Goods</b>		
Inspect goods for condition at time of receipt		
Check goods against order before approving payment		
Use pre-numbered receiving tickets		
Pass invoices to accounts payable for payment promptly		
Develop and document a procedure for dealing with partial receipt and claims for damaged goods		
<b>Payroll</b>		
Maintain security over payroll system passwords and change them regularly		
Review bank account deposits to ensure that each paycheck goes to a different bank account		

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BEST PRACTICE	WE DO THIS (Y/N)	COMMENT
Separate payroll preparation, disbursement and distribution duties		
Check payroll budget figures against payroll actual figures 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 banks and leave used		
Use direct deposit for paychecks		
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 list of actual employees		
<b>Competent and Ethical Employees</b>		
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.		

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BEST PRACTICE	WE DO THIS (Y/N)	COMMENT
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		
Investigate sudden, substantial changes in lifestyle of accounting & key personnel		
Provide training to recognize possible employee substance abuse		
Institute a confidentiality guaranteed employee feedback mechanism		
<b>Compliance with Externally Imposed Laws and Regulations</b>		
Develop policies and assign responsibility for compliance with particular legislative requirements. (E.g. 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		