

# 2016

## ONPHA Conference and Trade Show

### 404

## The Top 10 Internal Controls

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ONPhA



# What are Internal Controls?

Why do we care about them?

Doesn't the auditor look after them?

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## INDEPENDENT AUDITOR'S REPORT

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To the Board of Directors of XYZ Housing Corporation

We have audited the accompanying financial statements of XYZ Housing Corporation, which comprise the statements of financial position as at December 31, 2015 and December 31, 2014 and the statements of operations, changes in net assets and cash flow for the years then ended, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management in accordance with the Housing Services Act and guidance in its application by the XYZ Municipality.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Housing Services Act and guidance in its application by XYZ Municipality, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of XYZ Housing Corporation as at December 31, 2015 and December 31, 2014 and the results of its operations and its cash flow for the years then ended in accordance with the Housing Services Act and guidance by XYZ Municipality.

### Basis of Accounting and Restrictions on Use

Without modifying our opinion, we draw attention to Note X to the financial statements etc...



# Independent Auditor's Report

- Management is responsible for internal controls
- Auditor : no opinion on internal controls



# Effect on Financial Reporting

- Efficient
- Reliable
- Reduces risk of fraud



Control the risk!

# THE TOP 10 INTERNAL CONTROLS





# 10. Maintenance of Accounting Software & Data

- Update payroll tables
- Controlled access
- Offsite backup
- Lock periods that have been reported



# 9. Check Monthly Rents

- Verify \$ is correct
- How many units?
- Collection?
- Allowance made?



## 8. Document Policies and Procedures

- How are quotes obtained?
- How are bills paid?
- How are rents charged & collected?
- What's the policy on vacation pay?



# Expense Process



# 7. Approve Expenses

- Who should approve?
- Use purchase orders
- Cut off – When was work performed?
- Stamps



|                 |             |                 |           |
|-----------------|-------------|-----------------|-----------|
| SUPPL. NO       | DOCUMENT NO | DOCUMENT DATE   |           |
|                 |             | DD              | MM YY     |
| POSTING DATE    |             | DOCUMENT AMOUNT |           |
| MM YY           |             |                 |           |
| DOCUMENT REASON |             |                 |           |
| DISTRIBUTION    |             |                 |           |
| ACCOUNT NO      | CTR         | AMOUNT.         |           |
|                 |             |                 |           |
|                 |             |                 |           |
|                 |             |                 |           |
|                 |             |                 |           |
|                 |             |                 |           |
|                 |             |                 |           |
|                 |             |                 |           |
| INV / C'KD      | CD / C'KD   | APPROVED        | PJ NUMBER |
|                 |             |                 |           |



## 6. Use Preauthorization

- Reduces duplicate payments
- Avoids penalties and interest
- Invoices still need to be approved!



# 5. Check Payroll Reports

- Approve every pay
- Taxable benefits reported?
- Record vacation payable





## 4. Internal Audit

- Why wait for the external auditor to arrive?
- Controls risk
- Ask questions



# 3. Dually Signed Cheques

- Great idea!
- Do not pre-sign!
- Review the **whole** bank statement
- Cheque fraud is common



## 2. The Budget

- Annual Budget – make notes
- Monthly Budget (not always 1/12 of annual)
- Compare to actual results



# 1. Working Papers!

- Bank reconciliations
- Other working papers...all balance sheet accounts
- Monthly
- Benchmarking (Prior Year, Prior Month, Budget)



# Resources

- Call Derek
- Talk with your auditor
- ONPHA website



## Resources

[Member services](#)[Building operations](#)[Governance](#)[Board self-governance](#)[Finance and legislation](#)[Strategic planning](#)[Housing management](#)[Tenants and community](#)[New development](#)[Suppliers and bulk purchasing](#)[End of operating agreements](#)[Funding opportunities](#)

## Finance and legislation

Non-profit housing board members carry the public trust and are accountable on the organization's behalf to society at large. Limited resources mean that careful planning and monitoring of budgets is crucial. Board policies should reflect compliance with the large body of legislation and regulations that govern housing corporations.

### Financial management

[Audit tender package \(sample RFP package\)](#)[Reviewing a vacancy loss and turnover report](#)[Audit Committee terms of reference - sample](#)[Financial Statements for Boards](#)[Audit preparation](#)[End of Operating Agreements Part 2](#)[End of Operating Agreements Part 1](#)[Reviewing a financial report](#)[Annual cycle of financial activity](#)[Audit preparation checklist](#)[Finance Committee terms of reference - sample](#)[Financial accountability](#)[Financial statement accuracy checklist](#)

### Legal responsibilities

[Approving and amending bylaws](#)[Head leases](#)[HSA Basics for Boards](#)[Conflict of interest \(sample by-law\)](#)[Confidentiality agreement - sample](#)[Legal responsibilities of the board](#)[Legislation compliance checklist](#)[Model organizational by-law](#)[Ontario laws](#)[Policies and procedures checklist](#)[Privacy and confidentiality by-law - sample](#)[Risk management for not-for-profit organizations](#)

# Thank you!



Questions?

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