

## Janmar Consultants Inc.



**Ensure your Systems Support your Business and are Able to Adjust as your Business Changes.**

**If Not Have a Plan to Address This as Soon as Possible**

# Internal Systems & Controls





Many business owners, as their business grows, make the mistake of trying to do everything themselves and fail to delegate.

Establishing internal systems and controls puts policies and procedures in place that allow the business owner to delegate duties and responsibility, but still remain in control of the business.

## Executive Summary

**Ensure your systems support your business and are able to adjust as your business changes. If not have a plan to address this as soon as possible.**

Internal systems and controls are the systems, mechanisms, rules and procedures implemented by a company to ensure the integrity of financial and accounting information, promote accountability and prevent fraud. Besides complying with laws and regulations and preventing employees from stealing assets or committing fraud, internal systems and controls can help improve operational efficiency by improving the accuracy and timeliness of financial reporting. For most business owners dealing with internal systems and controls is equivalent to sliding down a razor blade and about the last thing a business owner or entrepreneur wants to think about or deal with. It's not glamorous. However, all businesses need systems and controls to limit internal and external threats or risks. Many business owners, as their business grows, make the mistake of trying to do everything themselves and fail to delegate.

As a result, they feel the business is running them rather than them running the business. Establishing internal systems and controls puts policies and procedures in place that allow the business owner to delegate duties and responsibility, but still remain in control of the business. The sooner these systems and controls are put in place the sooner the owner will be able to focus on the most critical areas of the business that need their attention.

**All businesses need systems and controls to limit internal and external threats or risks**

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Why companies don't put internal systems and controls in place  
What are the critical elements of internal systems and controls?  
How a Janmar Consultants part-time CFO can help establish internal systems and controls



## Introduction

**We have all heard stories of money or other business assets going missing as a result of employee theft or misappropriation.**

One example is John Rusnak who was employed by Allied Irish Bank and in 2002 was charged with covering up US \$691 million of trading losses so he could boost his own earnings. He invented aliases and fabricated documents to cover up a growing financial hole from bad bets on currencies. This however was dwarfed by Jerome Kerviel who worked for Societe Generale and cost his employer US \$6.8 billion in trading losses, which they announced in 2008. This Paris-based trader used his “in-depth knowledge” of the bank’s fraud control systems to circumvent internal checks.

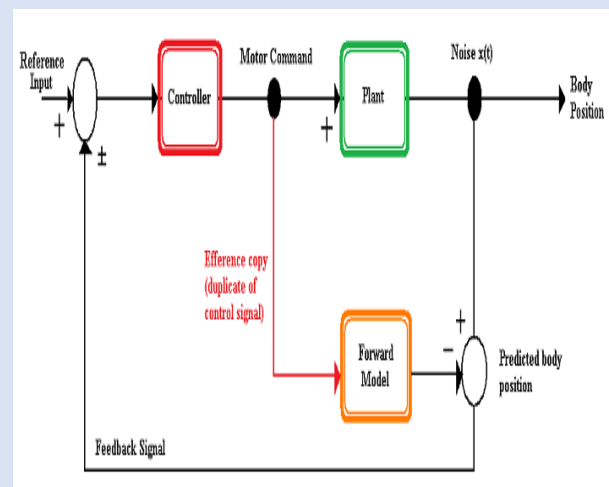
Now these two examples are extreme examples and regardless of how good your systems and internal controls are, you will never be able to be 100% protected, but the better your internal systems and controls, the more protected your business is, and the bigger the deterrent for theft.

**Not only do internal systems and controls act as a deterrent, but without these systems in place a business owner can never be sure their information is complete, accurate and reliable. Accordingly, no matter how big or small your business is, you need internal systems and controls to act as a check and balance to ensure things are under control. Additionally, establishing internal controls is not a one-time exercise of putting policies and procedures in place, it is an ongoing process that needs to be**

**revisited on a regular basis, to ensure the policies and procedures are still appropriate and working for your business.**

**No matter how big or small your business is, you need internal systems and controls to act as a check and balance to ensure things are under control**

Additionally, as businesses grow the owner becomes more removed from knowing all day-to-day activities, unless of course they want to work 18-20 hours a day, which is not sustainable. It is also a challenge for many business owners to transition from knowing everything that is going on in their business to delegating duties and responsibilities to others. This in turn leaves the business owner feeling overwhelmed and over worked, which causes stress. Effective internal systems and controls allows this transition to occur smoothly and still have the owner not only in control, but feel like they are in control, which provides the peace of mind all owners need.





## **The Benefits of Internal Systems and Controls**

**Internal systems and controls need to be effective, appropriate, consistently working and need to be cost-effective. In turn they will ensure many benefits that come with having effective internal systems and controls.**

**Effective internal systems and controls will allow you to grow your business and be in control of your business**

Some of the benefits are:

- Prevention of errors
- When errors occur to quickly detect and correct them
- Assets are protected and not used inappropriately
- Protect employees by clearly delineating their responsibilities and roles. If effective it will safeguard them from being accused of fraud, errors and/or irregularities
- Increased financial reliability, completeness and integrity
- Ensure compliance with laws and regulations
- Operations are efficient and effective
- Effective monitoring procedures
- Reduced lawsuits and insurance claims
- Effective internal systems and controls will allow you to grow your business and be in control of your business. Without these you will live in chaos and your business will not be able to grow beyond a certain point (this point will vary depending on the business and industry it operates in)



## Why Companies Don't Put Internal Systems and Controls in Place

### Business Owner/Leader Does Not Consider Internal Systems and Controls Important

For one reason or another, the business owner/leader does not consider internal systems and controls important. This may be due to a variety of reasons:

- They do not think it's necessary for their business
- The business hasn't had internal systems and controls up to now, so why bother
- They have good employees working for them that won't steal, so why does their business need internal controls

### Internal Systems and Controls are Too Costly

Implementing effective internal systems and controls is not free. They do cost money to put in place.

**The benefits of putting effective internal systems and controls in place far outweigh the disadvantages of not putting them in place.**

### Internal Systems and Controls is Time Consuming

The time involved in ensuring your business has effective internal systems and controls is time consuming. The potential consequences of not putting these systems and controls in place can potentially be very damaging and costly to a company.

### Internal Systems and Controls is Complex

Creating and maintaining effective internal systems and controls that allow all departments of a business to not only work, but also allow all departments to work together, is simply complex and difficult. Especially given today's environment of constant changes and the speed at which these changes occur. However, the reality is these systems are needed as part of building a successful business. The other key is to ensure you design your systems and controls to be able to grow as your business grows.

The reality is the benefits of putting effective internal systems and controls in place far outweigh the disadvantages of not putting them in place.



## **What are the Critical Elements of Internal Systems and Controls?**

**There are seven essential elements in internal systems and controls in accounting.**

1. **Separation of Duties.** This involves splitting responsibility for authorizing, processing, recording and reviewing transactions and events between individuals. This protects employees as well as prevents errors. For example, the person who records bank deposits should be different from the person reconciling the bank. In smaller companies, with fewer employees, this can be achieved by having a person review critical tasks after being recorded by a different person.
2. **Accounting System Access Controls.** Access to the accounting system needs to be controlled by using levels of authorization, passwords, lockouts and electronic access logs. This will prevent unauthorized users from gaining access to the system, and also provide a way to audit the use of the system and identify the source of any errors.
3. **Standardized Financial Documentation.** Standard documents should be used for financial transactions, for example invoices, internal material requests, inventory receipts, purchase orders, cheques, and sales orders. These documents help maintain consistency, ensure each transaction is accurate and complete, and make sure assets are properly controlled.
4. **Physical Audit of Assets.** Periodic audits of assets need to occur. For example, counting cash, inventory counts, and fixed asset counts. These counts will reveal if there are any discrepancies that may result from bypassing electronic records altogether. The reality is no matter how good your internal systems and controls, exceptions will occur that bypass all systems, and these regular physical audits will bring these exceptions to light so they can be resolved.
5. **Daily or Weekly Trial Balances.** By producing and reviewing daily and/or weekly trial balances you will be able to see if anything looks incorrect on a regular basis. If anything stands out, you can investigate it and quickly correct it in a very timely fashion.
6. **Periodic Reconciliations.** Reconciliations need to be performed on a regular basis with both external and internal records. These reconciliations include bank reconciliations, supplier and customer reconciliations, and control accounts to sub-ledger reconciliations. By performing these reconciliations, discrepancies will be revealed that can be resolved quickly and it will also ensure unauthorized changes do not occur. These discrepancies may occur in your business' records or the other party's records.
7. **Approval Authority Requirements.** Every business needs to have levels of authority as a means of checks and

balances. This protects your business by ensuring unlimited approval is not given to every employee. A person's level of authority and responsibility dictates their authorization level. For example, cheques above a certain amount require more than one signature, or inventory purchases over a certain dollar amount require a supervisor's approval.

**Controls:**

**Separation of Duties**

**Authorization**

**Documentation**

**Supervision**

**Reconciliation**

Although the above are internal systems and controls for accounting, the basics of the above essential elements extend out to all areas of the business. Specifically, all internal control systems need:

- Separation of duties
- Authorization
- Documentation
- Supervision
- Reconciliation

Lastly, internal controls can be separated into 3 types:

1. Detective – detect errors when they occur
2. Preventative – prevent errors from occurring
3. Corrective – correct errors when they occur





## **How a Janmar Consultants Part-time CFO Can Help Ensure Your Business is Compliant**

**All Janmar Consultants part-time CFO's are experienced, seasoned finance professionals that have years of experience being a CFO at large companies and accordingly, have years of experience designing and implementing internal systems and controls. All of this at a fraction of the cost of a full-time CFO and considerably less than the cost of a junior accountant.**

In all likelihood, you do not have an experienced member on your team that has been involved in the creation and implementation of effective internal systems and controls. Your part-time CFO will allow your business to quickly move to develop and implement effective internal systems and controls, which will allow you to focus on other more important core parts of your business, such as operations and/or sales.

Specifically, your part-time CFO will focus and assist you and your business to introduce and maintain effective internal systems and controls by focussing on the following:

- Explain to your team what internal systems and controls are and how they benefit the business
- Work with you and your team to establish segregation of duties and responsibilities
- Design internal systems and controls that will allow you, the business, owner to focus on more critical areas

of the business that need your attention, but at the same time determine what internal systems and controls you need to be involved in

- Review computer systems to ensure they will be able to expand as the business grows
- Install systems for monthly financial statement preparation and reporting
- Install systems for weekly, monthly and periodic reconciliations as required
- Establish a system for levels of authorization and approval for expenditures and investments
- Design and implement various systems in the business for managing various procedures/processes
- Establish key KPI's (Key Performance Indicators) and determine how often they will be tracked/reported on
- Design and implement systems for approval of new customers
- Design and implement systems for approval of new suppliers
- Ensure a system is in place to review accounts receivable, to ensure you are paid in a timely manner
- Ensure a system is in place to make sure all required laws and regulations are complied with
- Ensure ERP ("Enterprise Resource Planning") systems have in place appropriate levels of security, authorization and approvals
- Where needed oversee the installation of new systems and procedures
- Create reports to analyze profitability by customer and product
- Create and implement a system for budgeting and forecasting
- Create and implement a system for cash flow forecasting and monitoring

- Design and implement a system to review insurance coverage to ensure levels are appropriate
- Design and implement a system for recording and maintaining fixed assets
- Ensure a system exists to ensure all required government related filings and remittances are filed and paid on time
- Ensure a system exists related to dealing with lawsuits
- Ensure a system exists related to dealing with insurance claims

These are just some of the examples of what your part-time CFO from Janmar Consultants will focus on related to internal systems and controls.

Call now to get those valuable hours back to concentrate on the critical areas of the business that need you – we're here to help!

Janmar Consultants Inc.

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## Conclusion

Internal systems and controls are a necessity for all businesses, regardless of size. For most business owners the thought of dealing with internal systems and controls is about as exciting as watching paint dry. Your part-time CFO from Janmar Consultants will take this burden off your shoulders and work with you, and your team, to ensure your business has effective internal systems and controls in place. This will in turn free up your time to focus on the core business activities that need your attention and, more importantly, that you enjoy focussing on. They will assist you to put in place cost-effective internal systems and controls that are monitored and updated on a regular basis. This will, in turn, put you back in control of running your business rather than the business running you, which provides you with peace of mind.

