

# IF AUDITORS THINK INTERNAL CONTROLS ARE IMPORTANT, SO SHOULD YOU

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Internal controls are the policies and processes that have been put in place by an organization to ensure the integrity of the financial information and to prevent fraud.

An effective internal control system should have two different types of control activities: preventative and detective. Preventative controls aim to deter errors or fraud from happening in the first place, whereas detective controls aim to identify and correct errors or fraud after they have already occurred. An internal controls system is essential to ensure the accomplishment of goals and objectives.

**Below are 10 reasons why internal controls are important:**

## 1. Establishes the Process

- An internal controls system establishes the overall process. Processes ensure that employees know what is expected of them. For example, a treasury accountant should have a system in place that explains how to manage the banking activities.

## 2. Operational Performance

- Once the process has been established, it is time to take a step back and look for any redundancies or inefficiencies. Is there a better way to do things? At this point, you may see that there is a way to improve your administrative functions or perhaps controls in your finance office.

## 3. Segregation of Duties

- It is crucial to separate duties within your organization. There should not be one person in charge of both custody authorization and record keeping, for example.

## 4. Mitigates Risk

- An internal controls system allows your organization a process that outlines who is doing what and what they are doing. This is key in mitigating risk and can reduce fraud and error.

## 5. Organizes Information

- Internal controls also allow for more organized information. There tends to be a correlation between businesses that have an internal control system and how organized they are. Whether the information is in a dedicated folder, or its colour coded, the organization of information is key.
- Organization also allows you to be better prepared for questions/audits—if someone has a question, you can quickly find the information and facilitate their decision-making process.

## 6. Produces Timely Financial Statements

- In order to make decisions, especially during these turbulent times, you need financial information, and you need it quickly. An internal controls system allows you to provide this information and draw conclusions much quicker. You're able to say, here's what the data told us, here's what the history says, and here's what we should be thinking about right now. Overall, it makes for a more effective and efficient audit process.

## 7. Reduces Errors

- Internal controls also help create a more efficient organization by reducing error. With a system in place, you are less likely to base decisions on bad financial statements and you will avoid the process of going back and having to redo things.

## 8. Improves Accountability

- By assigning who is supposed to do what, you have a process that you can follow through to see who is making errors, which will happen from time to time, but it can be used as an opportunity to learn.
- Internal controls also provide accountability on the financial statement side as well. When you're looking at the trends within each department, you can go back directly to those department heads to find out what's going on and how things can be improved.

## 9. Stabilizes Operations

- An internal controls system helps to stabilize the overall operations of your organization. Again, there is a correlation between businesses that have developed internal control systems and those that have stabilized operations and a higher financial performance.

## 10. Increases Confidence and Trust

- Finally, when you have good internal controls, people can trust what the numbers are. This confidence in the numbers reduces the overall worry of malfeasance and fraud occurring.

Does your business have an internal controls system? Please do not hesitate to [reach out](#) to our trusted experts to discuss your specific situation and learn how to create or improve your internal controls system. If you need further guidance or have any questions on this topic, our strategic advisors are here to help.