



# **Internal Controls and Safeguarding Against Fraud**

**Presentation to Newly Appointed  
Academic Administrators  
September 11, 2003**

**Mark L. Britt**

**Director, Internal Audit Department**



# Overview

---

- ⦿ **Internal Audit's Role**
- ⦿ **Departmental Audits - Objectives**
- ⦿ **Internal Control**
- ⦿ **Risk**
- ⦿ **Fraud and Financial Impropriety**

# Internal Audit's Role

## • Management Assurance and Consulting Services

- Departmental Audits & Follow - up
- Continuous Auditing
- IT Audits
- Special Reviews
- Financial Auditing



# Other Auditors

- **External Auditors - Ernst & Young LLP**
- **Funded Research Auditors - NSERC, SSHRC, MRC, MOH**
- **Canada Customs and Revenue Auditors**
- **Federal and Provincial Sales Tax Auditors**

# Departmental Audits - 3

## Objectives

### • To Assess and Report on:

- Adequacy and Effectiveness of Internal Control/Risk Management Activities
- Compliance with Policies, Procedures, Laws and Regulations
- Efficiency and Effectiveness of Financial Administration



# Internal Control - What is it?

---

## Definition

**“ ... Control is what makes an organization reliable in achieving its objectives”**

**from Guidance on Control, The Canadian Institute of Chartered Accountants**



# Internal Control

---

- **Control Environment**
- **Control Activities**
- **Monitoring Systems**
- **Information Systems**



# **Control Environment - Integrity, Ethical Values, Competence**

- **Policy on Conflict of Interest for faculty and staff**
- **Annual Administrative Accountability Reports**
- **Paid Activity Reports**
- **Training**
- **Managers must set the tone for integrity and ethics**



# Control Environment - Segregation of Duties

- **Asset Transactions have three components:**
  - **Initiating/Authorization**
  - **Recording**
  - **Custody**
- **No one person should be responsible for all three**

# Control Environment - Lack of Segregation of Duties

## ⊗ Frequent Causes:

- Delegation of Authority
- Resource Limitations

## ⊗ Effects:

- Lack of effective control
- Increased risk of errors and improprieties



# **Control Activities - Policies, Procedures, Laws and Regulations**

- **Guide to Financial Management (GFM)**
- **Purchasing Policy/Purchasing Card Guidelines**
- **Income Tax Manual**
- **Human Resources - staff/faculty Policies**
- **One-up approval requirement**



# **Control Activities - Policies, Procedures, Laws and Regulations (cont)**

- **Funded Research Sponsor Requirements**
  - Federal Granting Agency Guidelines - NSERC, SSHRC, CIHR
  - Funded Research Digests (FReDs) - RIS
- **Laws and Regulations**
  - Health and Safety
  - Employment Standards Act
  - Income and Sales tax legislation

# Monitoring - Departmental and Central

- **Departmental - Review and reconciliation of Fund and Fund Center Statements of Account and Payroll Distributions and Management Reports**
- **Central monitoring - Financial Services Dept., Procurement Services, Internal Audit**

# Monitoring - Department Head and PI Review

## • Objectives:

- Provides assurance that transactions recorded in AMS are complete, accurate and authorized.
- Provides reliable information about the source, use and availability of funds.
- Assists with detection of errors and/or improprieties.

# Information Systems

## ⦿ Used for:

- Planning
- Control
- Decision Making



# Risk

---

## **Risk Defined:**

**the probability that events or actions may jeopardize the achievement of the University's objectives**





# Risk Categories

---

- ⊗ **Environmental Risk**
- ⊗ **Process/Operations Risk**
- ⊗ **Information Integrity Risk**

# Effects of Risk

- ❁ **failure to attain objectives and goals**
- ❁ **erroneous decision making**
- ❁ **erroneous record keeping, inappropriate accounting practices, fraud, fraudulent financial reporting, loss and exposure**

# Effects of Risk

- ❁ failure to safeguard assets
- ❁ 'customer' dissatisfaction, negative publicity, damage to reputation
- ❁ non compliance with policy, plans, procedures, laws
- ❁ acquiring resources uneconomically or using them inefficiently or ineffectively



# Risk Management

---

## • Four Ways to Manage Risk

- Accept
- Share
- Control
- Avoid

# Fraud and Financial Impropriety

- **'Reporting Incidents of Suspected Financial Impropriety'**
  - **"There are no small frauds, just frauds that were discovered early".**

# Fraud Facts and Stats

- **Estimated annual cost is in excess of \$100 billion - North America**
- **2/3 of all companies victims of fraud**
- **75% of all fraud goes undetected**
- **Nearly 85% of all fraud against companies involve former or current employees, suppliers or customers.**
  - **Source: Ernst & Young - 2002**



# Fraud and Financial Impropriety

---

 "Red Flags"

# Fraud and Financial Impropriety

## • How to safeguard against it:

- Set the Right Tone
- Review and Reconciliation
- Adequate supervision
- Segregate inappropriate combinations of duties



# Contacts

---

• **Mark Britt - 978-6660**

- [mark.britt@utoronto.ca](mailto:mark.britt@utoronto.ca)

• **Rachna Singh - 978-3867**

- [rachna.singh@utoronto.ca](mailto:rachna.singh@utoronto.ca)

• **Watch for the launch of the IAD Website -  
Fall 2003**