

Internal control toolkit for NPOs



Purpose of Toolkit

The objective of this toolkit is to assist NPO's in ensuring that their internal control systems are sound to prevent fraud and theft and to ensure that their business processes are effective and efficient. It comprises a checklist of internal controls for each of the typical business processes of an NPO, namely:

- Purchasing of and payment for goods and services
- Processing and payment of salaries and wages
- Receipt of donations
- Safeguarding of assets, including bank and cash

It is important to note that this version of the toolkit is targeted at those NPO's who have no or limited IT systems in operation.

An overview of internal controls

The purpose of internal controls is to:

- safeguard the assets of the NPO;
- Prevent and detect fraud and error;
- ensure financial and operational information is accurate and reliable;
- ensure compliance with the law; and
- ensure that risks are effectively managed

The foundation of an effective internal control environment is an ethical and effective control culture at the NPO. Leadership of the NPO sets the tone at the top. If the NPO's leaders are unethical, have a disregard for governance, compliance and control and are not committed to transparency and accountability, it will filter through to the lower levels. Inevitably, a culture of poor discipline and impunity will develop in the NPO – a culture in which internal controls will not be effective.

A commitment to integrity and ethical values by leadership is demonstrated through:

- The tone at the top – Through their directives, actions and behaviour, leadership and management at all levels should demonstrate the importance of integrity and ethical values to support the functioning of the system of internal control.
- Established standards of conduct – The expectations of leadership and senior management concerning integrity and ethical values should be defined in the NPO's policies and code of conduct and understood at all levels of the organisation.
- Monitoring adherence to internal controls and code of conduct – Processes should be in place to evaluate the effective operation of internal controls and the performance of individuals against the expected standards of conduct and to timely remediate deviations

Internal controls can be categorised as preventative controls, detective controls and corrective controls. Preventative controls are the controls designed to prevent fraud and errors from occurring Detective and corrective controls focus more on identifying and correcting failures after they had already occurred.

This toolkit is jointly issued by:

UUCSA (United Ulama Council of South Africa)
AWQAF SA (National Awqaf Foundation of South Africa)
AMAL SA (Association of Muslim Accountants & Lawyers of South Africa)
SANZAF (South African National Zakat Fund)

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Questionnaire	Yes/No
Bank and cash	
Does the organisation receive cash donations?	
Is cash received stored in a safe place with proper safeguards?	
Is the cash box opened by a minimum of two individuals and reconciled to the receipts before being banked?	
Is a pre-numbered (sequential) official receipt issued for all donations received?	
Does the total amount of receipts received get banked daily by a different individual to the one collecting the cash?	
Can only authorised individuals collect cash donations?	
Are manual receipt books adequately safeguarded, controlled and only issued to appropriate individuals?	
Are S18A receipts only issued for those donations that comply with NPO's approval letter from SARS?	
Does the organisation have the appropriate documentation stored to furnish to the auditor for the annual S18A audit certificate?	
Is there a master donor list maintained with contact details?	
Is a receipt issued for every EFT deposit received?	
Are payment in kind- such as clothes, physical equipment receipted?	
If possible, does the organisation have separate accounts for zakaat and lillah?	
If possible and cost effective, is a separate account maintained for S18A receipts?	
Petty cash	
Is the petty cash managed on the imprest system (reconciled to a control total)?	
Is all petty cash disbursed only with appropriate supporting documentation?	
Is petty cash reconciled to the imprest total with cash on hand and vouchers spent?	
Is the petty cash controlled by one person?	
Is the petty cash counted periodically by another individual?	
Bank Reconciliations	
Are all bank accounts reconciled monthly and all reconciling items investigated?	
Are the reconciliations reviewed by a senior official and evidenced as such	
Disbursements	
Does the organisation give zakaat?	
Are all recipients interviewed and assessed for zakaah eligibility (including home visits)	
Is the zakaah eligibility documented as well as funds disbursed to the recipient?	
Is the assessment of how much zakaat to be provided to the recipient approved by someone in addition to the case worker?	
Is a voucher prepared including supporting documentation where possible, for all disbursements?	
Is an EFT possible (this is preferable to cash disbursements)	
Expenses of NPO	
Is a budget prepared annually for the expenses of the NPO?	
Are expenses only authorised with supporting documentation which are signed as evidence of review	
Do all payments require two signatories/ 2 EFT passwords	
For any contracts that require monthly payments such as rent, photocopiers etc. - is there a contract in place?	
Are suppliers paid on time at the correct amounts?	
For all major purchases, are 3 quotes obtained and an independent process followed to select a supplier?	
Payroll	
Do all employees have an employment contract?	
Are background checks performed for all new employees including a criminal check?	
Are all employees registered for PAYE and UIF?	
Are the tax tables being used to calculate the PAYE updated annually?	
Are payments made to employees authorised by 2 individuals?	
Are payslips issued to employees monthly?	
Is there a process to apply for leave?	
Is there a formal performance evaluations which drives salary increases?	
For any ad hoc labour, is there a contract agreeing the amount to be paid?	
Fixed assets	
Does the NPO have any fixed assets e.g. laptops, tables, chairs, photocopier?	
Are these assets recorded in a fixed asset register?	
Are these assets numbered and tagged so they can be tracked?	
Is Depreciation calculated on these assets and recorded monthly?	
Are these assets insured?	
All additions and disposals of fixed assets must be authorised by an appropriate individual?	
Are these assets physically safeguarded?	
Projects	
Does the NPO do special projects such as build wells?	
Was an application received from the beneficiaries detailing the need for the project?	
Is a contract entered into between the beneficiary organisation and the NPO?	
Is due diligence performed on the need of the project, the recipients of the project, the costing of the project?	
Are all payments for the project authorised by two individuals?	
Is the costs tracked against the budget?	
Are site visits performed at the project site?	
Is an assessment of the projects success performed after the project is completed?	
Acquiring Investments	

Is due diligence performed on any investments made such as unit trusts etc.?	
Is the expected return on investment as appropriate?	
Is liquidity of the organisation monitored monthly?	
Is the return monitored monthly?	

Volunteers	
Is a list of volunteers maintained?	
Are volunteers screened before their services are accepted?	
Are contracts entered into with volunteers specifying both party requirements including confidentiality?	

Monthly reporting	
Are all transactions recorded monthly?	
Is monthly reports prepared and presented to the governing body?	
Is the expenses tracked against a budget?	
Does the organisation have the services of suitably experienced or qualified accountant/bookkeeper to ensure record keeping and reporting is accurate and reliable?	

Information technology	
Is there a policy for passwords, backups, data confidentiality?	
Are there specific requirements for passwords to be a certain length, include special characters and capital letters?	
Are passwords required to be changed regularly?	