

## Strengthening Internal Financial Controls & Preventing Mismanagement

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### **Q1. What are internal financial controls, and why are they important for non-profits?**

Internal financial controls refer to the set of rules, processes, and procedures that ensure the integrity and accountability of an organisation's financial management. In non-profits—often custodians of public or donor funds—such controls are essential for preventing fraud or error, ensuring funds are used as intended, and maintaining credibility with donors, regulators, and beneficiaries.

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### **Q2. How has the operating environment for non-profits changed in recent years?**

The sector has seen increased regulatory scrutiny, evolving donor expectations, and complex compliance obligations—especially regarding FCRA, Income Tax, and CSR regulations. While access to domestic philanthropic and CSR funding has expanded, such opportunities are increasingly limited to organisations that can demonstrate transparency, compliance, and strong internal systems.

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### **Q3. What is the relationship between financial systems and internal controls?**

Financial systems are the broader frameworks covering functions like budgeting, accounting, procurement, and asset management. Internal controls are the checks and safeguards within these systems—for example, the approval processes in procurement or dual signatories in banking. Controls ensure that financial systems operate efficiently, ethically, and without misuse.

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### **Q4. What are the three main types of internal controls within non-profit financial systems?**

Operational Controls – Ensure efficiency and effectiveness in programme implementation.

Financial Controls – Oversee transaction approval, budgeting, and record-keeping.

Compliance Controls – Ensure adherence to laws and donor-specific requirements (e.g. FCRA, Income Tax, CSR). These are increasingly critical due to regulatory tightening.

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### **Q5. Are internal controls expensive to implement?**

A common misconception is that controls require significant investment. In reality, most can be implemented using existing staff, with appropriate training, role clarity, and accountability mechanisms. They are more about culture and discipline than cost.

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### **Q6. What are the top three internal controls that non-profits should prioritise?**

Policies and Procedures – Practical, updated documents guiding financial and procurement processes.

Compliance Management – Timely fulfilment of statutory and donor reporting requirements (e.g. 12A, 80G, FCRA, CSR).

Risk Management – Ongoing identification and mitigation of operational, financial, and legal risks.

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### **Q7. How can small organisations implement internal audits without hiring external auditors?**

Internal audits need not be formal or outsourced. Organisations can create a review culture by assigning staff to periodically verify documentation, approvals, and expense reports. Regular cross-functional reviews or internal checklists are effective, low-cost ways to maintain oversight.

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### **Q8. Is having a finance manual or policy document sufficient to demonstrate good controls?**

No. Documentation alone is not enough. Effective internal controls must be practised, not just written. Donors and auditors increasingly assess actual implementation, including evidence of staff compliance and leadership oversight.

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### **Q9. Who is responsible for ensuring internal controls in an organisation?**

Responsibility is collective. The board sets the tone and approves policies; the management ensures operationalisation; and staff are responsible for day-to-day adherence. Embedding a culture of accountability is key, starting with leadership buy-in.

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## **Q10. What role does the board or governance play in internal financial controls?**

The board carries fiduciary responsibility to uphold financial integrity. This includes approving key policies, reviewing financial reports, and overseeing risk mitigation. Dedicated sub-committees—like finance or audit committees—enhance oversight and ensure organisational discipline.

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<http://dx.doi.org/10.58178/258.1068>