



EURASIA FOUNDATION

# **Internal Control and Conflict of Interest Training**

# Objectives of Training

- Define internal controls
- Review how we implement them
- Identify and address conflicts of interest

# Internal Controls: A Definition

- In accounting and auditing, **internal control** is defined as a process effected by an organization's structure, work and authority flows, people and management information systems, designed to help the organization accomplish specific goals or objectives.



# Internal Controls

- are a means by which an organization's resources are directed, monitored, and measured. It plays an important role in preventing and detecting fraud and protecting the organization's resources, both physical (e.g., machinery and property) and intangible (e.g., reputation or intellectual property such as trademarks).

# Internal Control

- At the organizational level, internal control objectives relate to the reliability of financial reporting, timely feedback on the achievement of operational or strategic goals, and compliance with laws and regulations.

# Internal Controls

- At the specific transaction level, internal control refers to the actions taken to achieve a specific objective (e.g., how to ensure the organization's payments to third parties are for valid services rendered.) Internal control procedures reduce process variation, leading to more predictable outcomes.

# Elements of Internal Control

- Policies and Procedures
- Management Oversight
- External Review

# Policies and Procedures

- Outline steps to be taken for each activity or transaction
- Ensure segregation of duties
- Ensure competition and transparency
- Direct oversight with approvals



# Management Oversight

- Direct implementation of policies and procedures (Set the **Tone at the Top**)
- Review and Approval
- Ensure proper training of staff

# External Review

- Internal Audits
- External Audits
- Evaluations

# Threats to internal control

- Lack of Knowledge
- Management override
- Access to assets
- Form over substance
- Conflict of interests

# Ensure Sound Controls

- Set the right tone at the top
- Proper Training (including refresher training)
- Proper follow up on identified weaknesses



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# CONFLICT OF INTEREST

# Definition of Conflict of Interest

**A situation in which someone has competing professional or personal interests that make it difficult to fulfill his/her duties fairly**

**or**

**Any situation in which an individual is able to exploit their professional or official capacity in some way.**

# Potential Conflicts of Interest

- **Staff/board/advisors/consultants personal relationships with grant applicants, contractors or vendors**
- **Grant applications from organizations staffed with former employees**
- **Grants to office service providers – landlords, exclusive travel agency, etc.**
- **Grantees using service providers in which they have a financial interest**

# Addressing a Conflict of Interest

- **Disclose the details of the conflict**
- **If uncertain about what to do, seek additional guidance from management personnel or Finance Committee**
- **Document the disclosure and the rationale for the action taken**
- **If the relationship will influence the decision-making process, involved individuals should recuse themselves**