

What Are Financial Controls?

Financial controls are internal processes put in place to prevent or detect accounting errors. Their main purpose is to keep accounting records accurate and reliable.

Poor financial management is the main reason for business failure. Using the right financial information will help you to make the right daily decisions and eliminate mistakes.

A robust network of internal controls also acts as a safety net to catch and deter fraudulent activity, such as skimming, misappropriation of assets (like inventory) and theft.

But at small businesses, financial controls are often overlooked or made more difficult because key control components, such as segregation of duties and layered review procedures, are not easy to implement.

With the right financial software, many preventive controls — designed to keep errors from happening in the first place — can be automated.

Make no mistake: Lack of or inadequate controls can prove devastating to a small business's financial well-being — and perhaps its ability to remain in business

Here are a few best practices you can implement like:

- Keeping business and personal accounts separate
- Reconciling accounts regularly
- Regularly compare internal books with external bank statements.
- Having two people double-count all cash deposits.
- Limiting the number of people who can access bank information.
- Limiting the number of authorized signers for payments
- Matching invoices with purchase orders and proofs of payment.
- Formalizing petty cash transactions, including a double sign-off.
- Requiring backup documentation for all transactions
- Creating an environment that fosters honesty and open communication.
- Clearly defining job responsibilities and periodically rotating them