Yogoda Satsanga Mahavidyalaya

B. Com Semester – VI (C-13) CBCS

Subject: Auditing & Corporate Governance

Topic: **AUDITING AND INTERNAL CHECK**

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An internal audit is different than an internal check:

The fundamental distinction between an internal audit and an internal check lies in their nature and scope. An internal check is a normal procedure involving the simultaneous cross-checking of all aspects of ongoing work, with documentation at the moment of execution. In contrast, internal audit entails a comprehensive examination of every element of the work by a third-party team specifically recruited for this purpose.

An internal check:

An internal check can be described as a systematic arrangement of operations within an office, warehouse, factory, store, etc. In this system, the tasks of one employee undergo automatic scrutiny by another employee. This arrangement aims to reduce the risks associated with errors and fraud. The design is such that committing fraud requires collusion between employees.

An internal check is implemented in a firm to ensure that no single individual is allowed to oversee and manage every aspect of financial transactions. It is integral to the internal control system. Consequently, tasks are compartmentalized, and each segment is given to a different worker. This structure ensures that one employee's work is subject to the examination of another, reducing the likelihood of errors and fraudulent activities.

Internal Check Components

1. Incorporating checks into daily transactions.
2. Sustaining continuous checks as an integral part of the normal system.
3. Ensuring that the one person's work complements another's work.

What is an internal audit?

An internal audit is a systematic and ongoing evaluative activity conducted within a company. In this process, a group of auditors' reviews accounting and financial operations, providing both constructive and protective services to the company's management. The primary objectives of internal audit are to ensure:

1. Accurate and appropriate recording of business transactions.
2. Systematic maintenance of account books in accordance with relevant provisions.

3. Prevention of misappropriation of business property and manipulation of accounts.

An internal audit serves as a control mechanism, aiming to appraise and measure the efficacy of other control measures. This involves the verification of company operations by a specially appointed staff for this purpose.

The main goal of an internal audit is to assist management in efficiently fulfilling their responsibilities by offering recommendations, logical analysis, and suggestions related to the examined operations.

Key Differences Between Internal Audit and Internal Check

1. **Nature and Purpose**
    - Internal check is a system within the organization where one staff member's work is checked by another to minimize errors or fraud.
    - Internal Audit is an internal examination of the organization's account books conducted by a dedicated audit team.
2. **Design and Control**
    - Internal check logically divides work to prevent absolute control by any one person.
    - Internal Audit involves a separate group of auditors cross-verifying employees' work.
3. **Starting Point**
    - Internal check starts when a transaction is entered.
    - Internal audit begins after the transaction is documented in the books.
4. **Focus of Examination**
    - Internal check verifies clerical and accounting accuracy.
    - Internal audit checks the scope and efficacy of management control.
5. **Executors**
    - Internal check is conducted by existing employees.
    - Internal audit is carried out by a specially appointed group of auditors.
6. **Cost Implications**
    - Internal check involves no additional cost as it is performed by existing employees.

- Internal audit is relatively expensive as it requires a dedicated team.

7. **Error and Fraud Handling**
   - Internal check prevents frauds and errors.
   - Internal audit detects frauds and errors.
8. **Function**
   - Internal check involves the arrangement and design of work.
   - Internal audit focuses on examining and evaluating work.
9. **Timing**
   - Internal check is performed at the same time as the work, catching mistakes early on.
   - Internal audit takes place after the transactions are recorded.
10. **Reporting**
    - Internal check reports are daily transaction summaries provided to supervisors.
    - Internal audit reports are submitted to the management by auditors.

Internal check objectives

1. **Prevention of Error or Fraud:** To prevent errors or fraud within the organization.
2. **Minimization of Misappropriation**: To reduce goods or cash being misappropriated by staff members.
3. **Reliable Accounting System:** To make sure that the firm's accounting system offers complete, reliable, up-to-date, and correct information for each business transaction.
4. **Early Detection and Correction**: To identify fraud or errors early on and promptly correct them.
5. **Protection of Resources**: To protect the firm's resources against carelessness, theft, and inefficiency.
6. **Comprehensive Delegation**: To assign work in a manner that ensures no business segment remains unrecorded or unchecked.
7. **Timely Detection through Independent Checking**: To identify frauds and errors when they occur, via independent checking.
8.

Internal audit objectives

1. **Verification of Accounting Records**: To substantiate the authenticity and accuracy of the accounting records provided to the management.
2. **Compliance with Accounting Policies**: To ensure compliance with standard accounting practices and policies.

3. **Early Detection of Errors and Frauds**: To enable the early detection of errors and frauds within the organization.

4. **Analysis of Internal Check System**: To analyze the internal check system at regular intervals, recommending improvements and conducting special investigations for management.

5. **Verification of Liabilities**: To confirm that liabilities have been sustained for legitimate and valid activities.

6. **Authorization and Compliance**: To ensure that transactions are performed by authorized personnel and under the appropriate authority.

Internal check advantages

1. Appropriate division of work
2. Error and fraud prevention
3. Boosts efficiency
4. Convenience for auditor
5. Account accuracy
6. Increased profits

Internal audit advantages

1. Fraud and error detection
2. Quick presentation of reports and accounts
3. Management advisory services
4. Proper coordination and control

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