

# INTERNAL CONTROL



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# MEANING

The whole system of controls established by the management in the conduct of the business.

- ❑ It comprises a number of checks and controls on various transactions of a business for its effective running.
- ❑ It includes both financial and administrative controls.
- ❑ Internal check and internal control are the various forms of control.

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## **ACCOUNTING AND FINANCIAL CONTROL**

1. Budgetary control.
2. Standard costing.
3. Control accounts.
4. Bank reconciliation.
5. Self balancing ledgers.
6. Internal Auditing.

Ensures accuracy and Reliability.

## **ADMINISTRATIVE CONTROL**

1. Time study.
2. Motion Study.
3. Quality control.

Ensures operational Efficiency.

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# DEFINITION

“Internal control is best regarded as indicating the whole system of controls , financial and otherwise established by the management in the conduct of a Business, including internal check, internal audit and other forms of control”.



**SPICER AND PEGLAR**

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# PURPOSE OR NEED FOR INTERNAL CONTROL

1. Reduction in quantum of work.
2. Efficiency.
3. Optimum use.
4. Check on errors.
5. Maintenance of accounts.
6. Testing.
7. Policy.



# INTERNAL CHECK



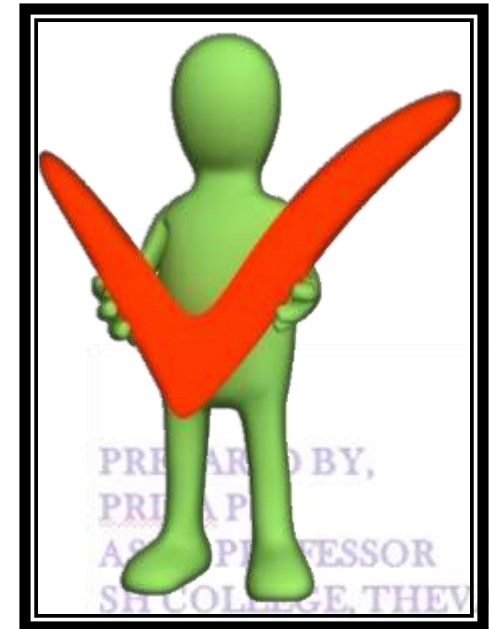
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# MEANING

Internal check is a method of organising the accounting system of a business concern or a factory by which the duties of various clerks are arranged in such a way that the work of one person is automatically checked by another.

## INVOLVES:

- Division of all the works among different employees according to their capabilities and qualifications.
- Work done by one employee is automatically checked by another.



# DEFINITION

“ An internal check means practically a continuous internal audit carried on by the staff itself by means of which the work of each individual is independently checked by other members of the staff”



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# OBJECTIVES OF INTERNAL CHECK

- ❖ To detect errors and frauds.
- ❖ To prevent the commission of errors and frauds.
- ❖ To prevent the misappropriation of cash and goods.
- ❖ To increase the efficiency of the staff by proper assignment of duties.
- ❖ To have an accurate record of all business transactions.
- ❖ To distribute the work in such a manner that no business transactions is left unrecorded.



# ADVANTAGES

- Entails proper and rational distribution of work.
- Helps in early detection of errors and fraud.
- Increases the efficiency of business.
- Genuineness and accuracy of accounts.
- Preparation of accounts without loss of time.
- Helps to detect the exact persons who is responsible for the irregularities.



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# DISADVANTAGES.

- ❑ Applied in a relatively large concern.
- ❑ More time and expensive.
- ❑ Auditor relies much on test checking so he may not carry out a thorough and detailed verification of accounts.
- ❑ Over confidence in the system may result in lack of control by the responsible high officials.



# DUTIES OF AN AUDITOR AS REGARDS INTERNAL CHECK



- ✓ The concern where there is no internal check system the auditor should verify the transactions in detail.
- ✓ He should apply test checks to know the accuracy of accounts.
- ✓ He must probe the matter thoroughly if there is even a slightest suspicion.
- ✓ He will be held liable if any fraud is committed.