

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



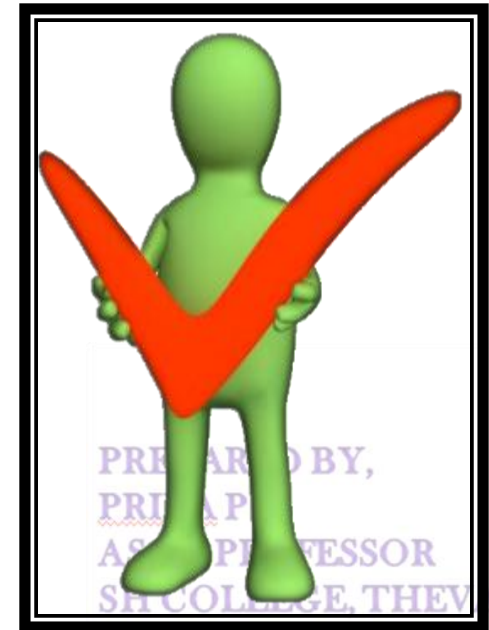
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MEANING

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”



F.R.M.DE PAULA

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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.