Auditing



Internal Control

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INTERNAL CONTROL



INTRODUCTION

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INTRODUCTION

- As the size of an organisation increases, it becomes difficult for the owners to control every activity personally. In such cases, the best alternative is to design such a system of operation, that the desired control effect is attained. The operation of each work, the preparation, preservation and distribution of vouchers, the division of work, the signature of approving authority, etc. are designed in such a way that least control needs to be excercised. Such as it study and evaluation of clients internal control system it is required to determine the nature, extent and timing of audit procedures to be used during the examination of the financial statements.

DEFINITIONS

- **Spicer and Pegler defines the internal control** as, "Internal control is best regarded as 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".

- **The Institute of Chartered Accountants of England and Wales defines internal control** as "the whole system of controls, financial and otherwise, established by the management in order to carry on the business of the company in an orderly manner, safeguard its assets and secure as far as possible the accuracy and reliability of the record".

DEFINITION

- **The Oxford Dictionary states**, " The measures an organisation employs to ensure that opportunities for fraud or misfeasance are minimized".
- Examples can be requiring more than one signature on certain documents, security arrangements for stock-handling, division of work, etc.

Objectives and need of Internal Control

Reliable Data	• Effective internal control system needs reliable and accurate financial data
To promote operational efficiency	• **Internal control system covers all aspect of operational areas. Internal control promotes operational effeciency and removes unnecessary duplication of efforts.**
To encourage adherence to prescribed policies.	• **The system of internal control is meant to provide reasonable assurance that procedure and rules of various institution are followed by organisation**
Safeguarding Assets and records	Internal control helps to safeguard the assets and secure the accuracy and relaibilities of the records of the company

Essentials of Good Internal Control



- Well defined plan, Competent Staff
- Segregation of duties according to types of operation
- Well developed and adequate accounting system
- Sound system of maintenance of accounting record
- Effective internal check, Effective audit system, Periodical review of internal control

Essentials of Good Internal Control



a) It should be clear and well developed plan of organisation.
b) There should be competent and trust worthy personnel for the success of the business.
c) There should be segregation of duties:- Operational duties are separated from recording duties. Physical handling of asset must be separated from accounting records.
d) There should be administrative traditions and practices for the performance of the duties.

Essentials of Good Internal Control



e) There should be well developed and adequate accounting system.

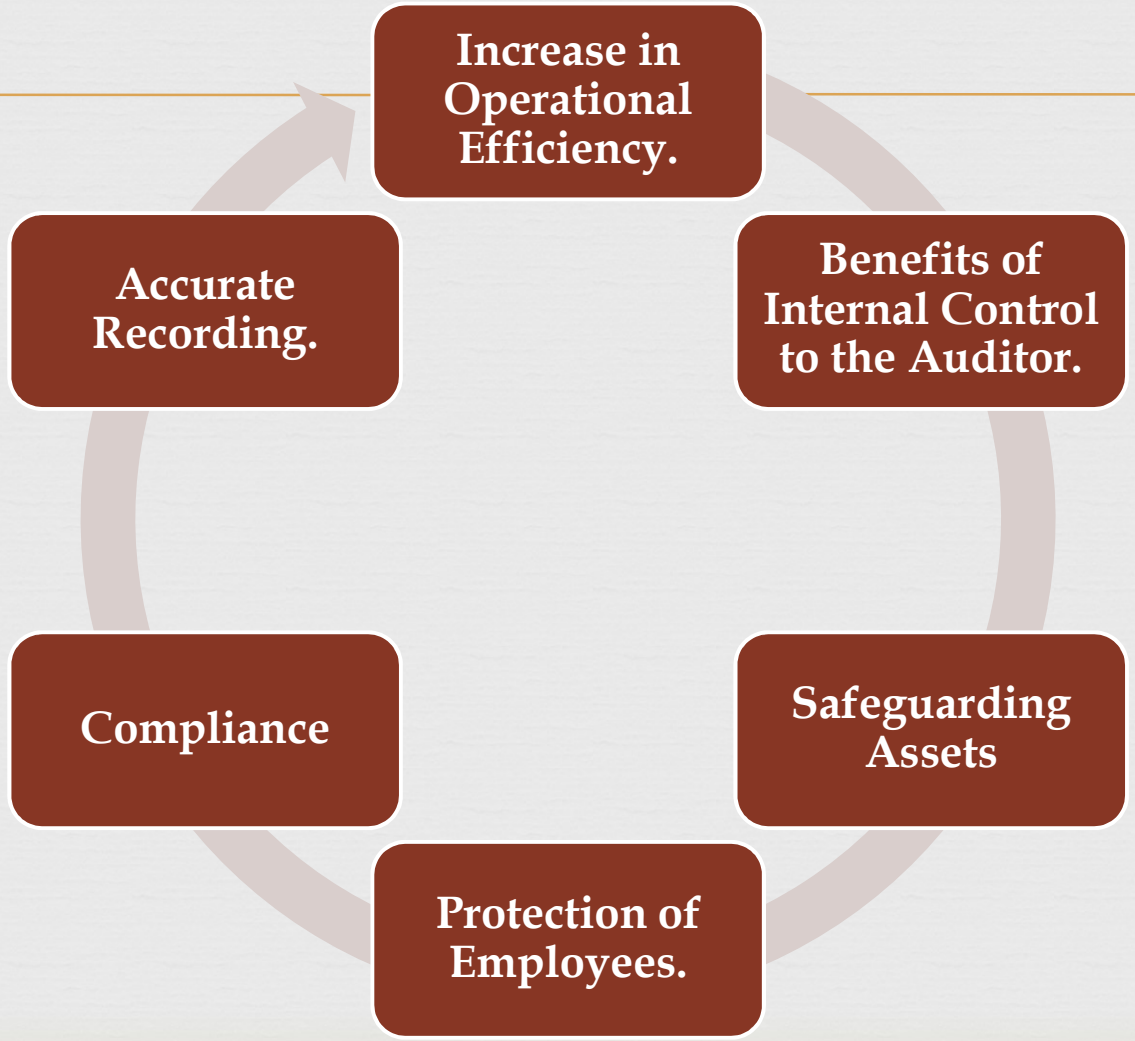
f) There should be a sound system of maintenance and recording of accounts.

g) There should be effective internal check system.

h) There should be good audit system.

i) Periodical review of internal control.

Advantages of Internal Control System



Limitations of Internal Control

Judgement	• Internal control system is greatly depend upon personal judgement of employees .
Breakdown	• Internal control system lacks due to breakdown in operations
Management override	• Personal who are responsible in internal control system bring limitation due their inabilities and overconfidence
Collusion	Sometimes internal control affects fraudulent manipulation done by organisational people.
Human error	Functions is done by organisational member therefore human error lacks efficiency of Internal control system.



Thanking You