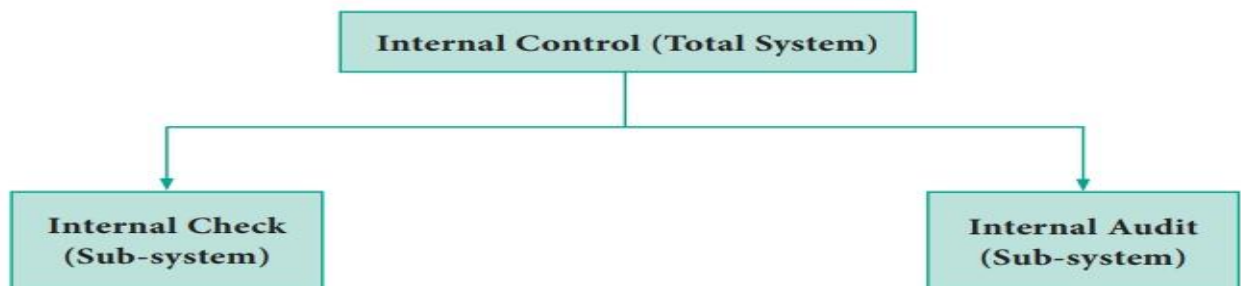


Class: B.Com (Hons) Semester III

Subject : BCH 3.1 AUDITING AND CORPORATE GOVERNANCE

3. Topic: Internal Check – Meaning, Elements and Objectives.



3.1: Meaning of Internal Check:

Internal check – It is a sub system of internal control in which all the transactions of the organisation and the related accounting work is divided among the employees in such a manner that the work done by one employee is examined independently by another employee.

According to this system, the work is divided among the employees according to their capabilities and in such a manner that no single employee does any task or transaction from the start to the end. In this manner, the complete accounting work in respect of any transaction is not allotted to any single person from the start to finish.

For example, in an educational institution the work of collecting fees from students is allotted in such a manner that one clerk collects fees from only commerce students, a second clerk collects fees only from arts students. The fees collected by these clerks is entered into the books

of accounts by a different clerk and a different clerk goes to deposit the money into the bank. If any employee commits any error or fraud in his work it is immediately detected by the employee examining his work. In this manner, in a system of internal check each transaction is examined also side by side, and as a result unless two or three employees are not working in collusion, it becomes very difficult to commit frauds.

3.2: Features Or Elements of Internal Check

1. This technique is an integrate part of the complete system of internal control.
2. This technique is related to the division of work among the people maintaining the accounts.
3. In this technique, no single employee records any transaction from the beginning to the end.
4. In this technique, the work done by every employee is examined independently by another employee.
5. In this technique, the work done by one employee is complementary to the workdone by another employee.
6. The aim of this technique is to develop an automatic system for detection of frauds and errors.
7. In this technique, the work of book-keeping and accountancy is mechanised to the maximum possible extent.

3.3: Objective of Internal Check

(1) To prevent frauds and errors: The main objective of internal check is to establish a system which makes fraud impossible or very difficult to commit and hence employees are dissuaded against committing frauds. In the same manner the prevention of errors is also one of its

objectives since in this technique there is provision for compulsory examination of work done by one employee by another.

(2) Determination of responsibility: The determination of responsibilities of employees is also one of the objectives of internal check. In this system work is divided in such a manner so that in case of frauds and errors the related officers can be held responsible.

3) To prevent omissions in accounting: The aim of this system is to bring about discipline in accounting so that no transaction is omitted from being recorded in the books of accounts.

4) To increase the efficiency of employees: The aim of the internal check system is to divide the work into various parts and assigning it to those employees who are efficient in doing such work. In this manner, this system is also adopted in order to increase the efficiency of employees.

5) Quick preparation of final accounts: The aim of this technique to prepare an organisation structure of the accounting department in such a way that the accounting work can be done in an efficient and error free manner, and at the end of the financial year the final accounts can be prepared as quickly as possible.

(6) To ease the audit work: The internal check system is also adopted in order to make the audit work easier. In organizations where this system is implemented the auditor can resort to test checking in his examination.

3.4: The Points of distinction between internal check and internal control are as follows.

S.No	Basis	Internal Check	Internal Control
1.	Meaning	A system of allocation of responsibility, division of work, and methods of recording transactions, whereby the work of an employee is checked continuously by another.	It consists of all the methods and procedures adopted to assist in achieving the objective of efficient conduct of business. It includes internal check and internal audit.
2.	Scope	It operates in routine to double check every part of a transaction at the time of occurrence and recording of the same.	In internal control systems, work of one person is automatically checked by another.
3.	Objective	Its objective is to ensure that no one employee has exclusive control over any transaction or group of transactions and their recording in the books.	Its object is to ensure adherence to management policies, safeguarding of assets, prevention and detection of frauds and errors, accuracy and completeness of accounting records.
4.	Point of Time	Methods of recording transactions are devised where work of an employee is checked continuously by correlating it with the work of others.	In internal control system, checking is done simultaneously with the conduct of work. Every transaction is checked as soon as it is entered.
5.	Thrust of System	The thrust of internal check system is to prevent errors.	The thrust of internal control lies in fixing of responsibility and division of work to avoid duplication.
6.	Cost Involved	It is a part of internal control and a method of division of work, therefore does not add to the cost.	The system proves to be costly in case of small businesses because more number of employees are engaged.
7.	Report	The summary of day to day transactions work as report to the senior.	Internal control provide for built in MIS reports.

