INTERNAL AUDIT

Meaning and Definition

Internal audit is an evaluation and analysis of the business operation conducted by the internal audit staff. It is the part of overall system of internal control established in an organization.

Internal audit is the independent appraisal activity within an organization for the review of accounting, financial and other business practices as protective and constructive arms of management. It is a type of control which functions by measuring and evaluating the effectiveness of other type of controls.

According to Professor Walter B. Meigs, Internal Auditing means "Internal auditing consist of a continuous, critical review of financial and operating activities by a staff of auditors functioning as full time salaried employees."

In big organization, an internal audit is carried out by the team of professionals in the organization. The internal audit is not mandatory but organization gets the internal audit done with a view to evaluate the effectiveness of internal control, the soundness of financial system, effectiveness of business processes etc. This provides management an assurance about the control process in the organization and it aids in early detection of inefficiencies/fraud etc. it helps the statutory auditors too in getting the statutory audit done effectively. As per company audit report order, 2003, statutory auditor also requires to comment whether the company is having sound internal audit system or not.

Objective of Internal Audit

(i)*Proper Control*:The purpose of internal Audit is to keep proper control over business activities. When there is proper control there is maximum efficiency. The internal control can determine the degree of control over work.
(ii)*Accounting System*:The purpose of internal audit is to evaluate the accounting system. It is concerned with checking proper authority for

transactions like purchase, retirement and disposal of fixed assets. The voucher can be compared with entries in order to determine that figures and facts.

(iii) *Help Management*: The purpose of internal audit is to help the management. Internal auditor can point out the weaknesses. The internal audit can be used as a tool to correct the situation. The management functions can be performed properly.

(iv)*Working Review*:The purpose of internal audit is to review the working of business. The working of current year can be reviewed in detail. There is a need to locate the weak points. The corrective measures can be taken for proper working.

(v*) Asset Protection:* The purpose of internal audit is to protect the assets. The proper records of assets must be there. Internal auditor can examine the valuation, verification and possession. The purchase and sale of assets must be made under proper authority.

(vi) *Internal Check*: The purpose of internal audit is to evaluate the internal check system. There is division of duties among the employees. When all staff member are working properly it means there is effective internal check system. The work of an auditor is reduced. He can apply test checks to complete audit duty.

(vii)*Fair Statements*:The purpose of internal audit is to detect the error in the accounting records. The work of internal audit can help the management to see that accounting record is in order.

(viii) *Check Error:* The purpose of internal audit is to detect the errors in the accounting records. If the work of internal auditor goes side by side therefore there are minimum chances of errors. The accounting staff can rectify mistake to prepare accounts at the end of year in order to help the external auditor.

(ix) *Detect Fraud*: The purpose of internal audit is to detect frauds in the books of accounting. When the work of accounting staff is over the internal audit is started. Accounting staff remains alert because there is no time gap between recording and checking. Thus detection of fraud is possible with it.

(x)*New Ideas*:The purpose of internal audit is to seek new ideas relating to procedures, marketing, financing and other business matters. The internal audit staff can provide new ideas about various business matters. The viable ideas can be put in to practice for the benefit of business

BASIC PRINCIPLES OF ESTABLISHING INTERNAL AUDIT

The basic principal of establishing internal audit in a business concern are-

1. *Independence :* the internal audit department should have an independent status in the organization. He may be required to report directly to the board of directors.

2. *Objectives*: the objectives of the internal audit function should be made very clear and unambiguous. The objectives should be properly communicated so that internal audit is not viewed as “over-the-shoulder check” by other departments.

3. *Clarity in Scope*: the scope pf internal audit department must be specified in a comprehensive manner. The department must at all times, have authority to investigated from the financial angle, every phase of organizational activity under any circumstances.

4. *Definition of Duties*: The internal audit Department’s duty is to review operations as part of the internal control system. It should not be involved in performance of executive actions.

5. *Internal Audit Department:* The size and qualification of staff of the internal audit department should be commensurate with the size of the business. The cost of internal audit department should not exceed the benefits expected to be derived from it.

6. *Reporting*: The Programme of internal audit should be time-bound. There should be provisions for periodic reporting on various operational and other aspects.

7. *Follow Up and Review*: There should be sufficient scope for the follow up actions on the various points raised in internal audit report. Top management should take active part in ensuring compliance with actions points raised in the report.

8. *Relationship with statutory auditor:* The copy of the internal audit report should be made available to the statutory Auditor, who can deal with the same in the manner as he deems fit.

INTERNAL CHECK AND INTERNAL CONTROL

INTERNAL CHECK

Internal check is a system enforced in business under which the recording of business transactions is arranged in such a manner that the work of one staff member will automatically be checked by others in the course of recording of transaction itself.

Under internal check system the staff duties are so arranged that no one person is allowed to record every aspect of the transactions and the entire work is distributed among the various members of the staff in such a manner that the work of one person is automatically checked by others.

The system of internal check is increasingly recognised by the auditor specially when the size of the concern is large. The existence of effective internal check system relieves the external auditor of detailed checking to a larger extent. The extent to which an external auditor can depend upon the system of internal check is based on the procedural tests applied by him to find out the effectiveness of the system. However the auditor cannot be relieved of his responsibility if he was found guilty of negligence regardless of the fact that he had tested the internal check in existence in the organisation before he had accepted it as correct.

Objectives of internal check

- To reduce chance of fraud and errors that may be committed by any member of the staff and make it more difficult. If any fraud is to be committed two or more persons must collude together.
- To detect fraud and errors easily and correct them promptly.
- To exercise moral pressure among the members of the staff.
- To allocate duties and responsibilities of every person in such a way that he can be taken to task for any lapse on his part.
- To increase overall efficiency of the members of the staff by assigning duties based on the principle of division of labour.
- To have an accurate and reliable record of all business transactions.

Preparation of check-lists

Essentials of good internal check system

- No single staff shall have absolute control over recording of all the aspects of business transactions by himself.

- The same staff shall not be allowed to have access to all books of accounts as well as physical custody of the assets.

- Each member of the staff should be made responsible for a specific work.

- All officials and employees holding responsibility towards cash, securities or stock should be encouraged to proceed on annual leave to prevent the concealed fraud.

- The duties of the members of the staff should be changed from time to time.

- Attempt should be made to introduce mechanical devices to prevent mis-appropriation of cash.

- Each transaction should pass through a definite route and through several hands.

- All books, vouchers, documents should be classified and made available for easy reference.

- Proper record must be maintained of the incoming and outgoing of goods from the business premises.

- Self balancing ledger system should be introduced to make the system more efficient and effective.

- No undue importance should be given to any staff member and too much reliance on any staff member should be avoided.

- Division and allocation of duties among the staff members must provide for an automatic check by others

Internal check as regard cash sales

Since chances of committing fraud in connection with cash sales are greater, it calls for devising an efficient and effective system of internal check. Cash sales may be affected in various ways like a) sale at counter, b) postal sales, i.e. sales under mail order, and c) sales by representative and agents. The system of internal check to be followed in each case is discussed below.

- One salesman should be appointed to look after one counter independently and should be made responsible for sales effected in his counter.

- Each salesman must be issued with a separate cash memo book. The cash memo book must be printed in different colours to identify different counters of the business.

- Each salesman must maintain a sales sheet. He should record therein the sales effected by him. The summary of cash sales effected by him must tally with the cash memos issued by him.

- Cash memos are to be issued with carbon copies.

- The salesman must not receive cash on the cash memos issued by him.

• All payments on the cash memo of the salesman must be made by the customer at the cash counter.

Sales are to be effected in the following manner

1. Three copies of the cash memo must be issued to customer

2. The customer must present the three copies of cash memo to the cashier at the time of making payment

3. The cashier must verify the particulars and satisfy himself regarding the total payment with reference to rates and quantity.

4. The cashier on receiving the payment in cash will place a rubber stamp on all the copies of memos as "cash paid".

5. He will retain one copy with himself and hand over the other two copies to the customer.

6. The customer must present the cash memos to the delivery department to collect the goods purchased.

7. The delivery department will put rubber stamp on the memos as "goods delivered". It will retain one copy as an evidence for delivery and hand over another copy of the memo to the customer.

At the end of the day's working, the sales man, the cashier and the gate keeper should prepare the summary and submit to the manager or officer incharge. If these summaries tally, the accounts are certified as correct.

Postal sales i.e. sales under mail order

This includes following aspects:

• All sales made by post i.e. V.P.P should be recorded in a separate register to be maintained for the purpose.

• The goods returned, if any, should also be recorded in the register.

• The total amount of cash receipts including advance, if any, against the mail orders should be entered in the register and the same should be deposited into the bank.

• All the entries in the V.P.P. register should be checked by some responsible officer and special inquiries should be made in respect of those goods against which cash has not been received.

• There should be proper filing of mail orders received and the cash book should be checked with these mail orders.

Sales by representative and agents

It is the practice in big business houses to employ representative and agent to promote sales and to collect the amount due from debtors. The system of internal check to be introduced in this connection should be as follows:

1. The representatives and agents should be authorised to issue rough receipts to the customers against cash received from them. However, the final receipt should be issued only by the head office.

2. The customers should be advised to communicate directly with the head office if they do not get the final receipt within a reasonable time period

3. The representatives and agents should be instructed to remit the amount of cash collected by them to the head office without any delay.

4. The representatives and agents must not be allowed under any circumstances to deduct their commission or any other expenditure from the amount of cash collected by them. The bill for commission and other expenses should be submitted to the head office.

5. As a matter of routine the head office should send periodical statements of accounts to the customer with a view to apprise them of the latest position.

6. The representatives and agents should be advised to submit periodical statements to the head office showing therein the amount of sales made by them, the amount of cash collected by them and the names of the defaulters.

7. The head office should issue reminders to those defaulting customers who have failed to clear their dues.

8 The representatives and agents must not be allowed to operate from a fixed place. On the contrary, they should be transferred from time to time to other place in order to increase their efficiency and to avoid the possibility of committing fraud.

Internal check as regards purchases

Since chances of committing fraud in connection with the purchases of goods by a big business house are greater, it calls for devising an efficient and effective control system of internal check. In this connection one should be familiar with the purchases procedure which should be as under.

• The department requiring the material should fill in the purchase requisition indicating the quantity and quality to the purchase department.

• The purchase department on the basis of the requisition will send out enquiries to the various suppliers asking for quotation.

• On receipt of quotations the order will be placed on the best vendor taking into account the quality, period of delivery, competitive prices etc.

• On receiving the order the vendor shall execute the order. The supplies will be received by the stores department.

- On receipt of goods it will be verified with reference to the order with the goods received memo issued by the stores department. If the supplies are made according to the order the delivery note and invoice sent by the supplier will be forwarded to accounts department with endorsements for the goods received and taken to stores.

- The invoice will be passed for payment by a senior officer after verifying the terms and conditions of the supply with reference to rates and quality and other expenses detailed.

Keeping the above points in view, the following system of internal check is suggested with regards to purchase:

- There should be separate purchase department.

- Purchase order are to be issued only against indents received from the various department of the business.

- All orders should be a placed in writing. The order form must be preferably a printed form containing full details.

- The orders must be made in quadruplicate. One copy of the order is to be sent to the supplier. The second copy is to be sent to the concerned department which has placed the indent for supply; third copy is to be sent to account sdepartment and the fourth copy is to be retained by the purchase department for future reference.

- All orders for purchase, should be signed only by the purchase manager or the person authorised for this purpose.

- All orders should contain the seal of office.

- The goods received should be inspected with the copy of the order.

- The goods received are to be examined with delivery notes and supply invoices of the seller regarding quantity, quality and rates.

- The purchase department should make an endorsement putting rubber stamp on the suppliers bill with reference to goods received.

- After inspection and examination 'Goods Received Note' is to be prepared for each lot of purchase. The inspection note should also be attached to it.

- Endorsement must be made by the purchase manager or the authorised official (of stores department to take the goods into stock.

- The stores department should acknowledge receipt of goods and send the same to the order department.

- All packages of incoming goods are to be opened only in the presence of a responsible official.

- The stores officer on verification of the correctness of the goods received should enter them in the stock register.

• Generally a rubber stamp containing the following certificate will be placed on the suppliers bill and signed by the purchase manager

"Certified that goods are received as per Order

No,..........Dated..........and taken to stock vide Folio No,............ of stock register No,..........."

• The Payment on purchases must be made only after accounts department verifies the invoice, goods received note and purchase order.

• The accounts department should impress a rubber stamp on invoices which are passed for payment.

• A separate purchase register is to be maintained by the purchase department

• Ledger clerk should have no access to physical stock register or cash to avoid manipulation of accounts.

• For inter-branch purchase or inter-company purchases transfer notes should be issued.

• All Purchases that are made by employee for the personal use must be accounted for separately.

• A separate return outward book is to be maintained to record the return of goods to suppliers.

• Credit notes are to be issued for adjusting claims. The purchase department should send a copy of credit note to accounts department.

• A purchase ledger control account is to be maintained. Ledger account should be checked periodically against the suppliers statements.

• A perpetual inventory control method should be adopted to avoid excess quantity and to maintain minimum quantity.

• Where goods are delivered directly to locations or place of work not controlled by the purchase department, the invoices are to be passed by the purchase department only after examining the certificate of receipt of stock from the authority to whom the goods are delivered.

In general the purchase department must place purchase orders on the basis of indents, record the order in the purchase day book, enter the goods received in the goods inward book and send the invoice of the supplier alongwith the inspection report and goods received notes to the accounts department for payment.

Internal check as suggested above will avoid irregularities in purchase and minimize, if not completely eliminate, manipulation of accounts by entering fictitious purchase or entering invoice twice or misappropriating the discount or commission allowed by the suppliers.

Internal Check as regards Sales

The organisation of the sales department depends on the system of selling and distribution of goods. Unless the department is organised properly there are greater possibilities for suppression of sales and manipulation of accounts. Goods can also be misappropriated. Hence, a well-knit system of internal check is necessary which may be in the following manner:

1) Sales must be executed against order received from customers.

2) All incoming orders shall be numbered and filled and confirmation of the orders received be sent to the customers.

3) Proper record is to be maintained for the orders received, order under execution/executed/refused.

4) The sales shall be authorised by responsible officials after scrutiny of the order and assessing the portion of supply of goods as well as the terms and conditions of sales accepted by the customer.

5) All sales orders shall contain invoices prepared in quadruplicate. One copy is to be retained by the sales department, one to be sent to the customer, one to the accounts department and the last copy to despatch section for despatch of goods.

6) Separate departments should deal with cash sales and credit sales.

7) In the case of credit sales a separate register should be maintained of the customers with financial standing. The credit sale is to be allowed only after scrutiny of the customer's order for supply of goods on credit.

8) Periodical statement of the outstanding balance due towards the customer be sent and confirmation obtained from them.

9) Regular reminders for payment shall be made to the customers reminding them of their dues.

10) Amount due from the customer shall be written off as bad unless all methods of recovery are exhausted.

11) The responsible official shall be entitled to treat a debt as bad.

12) The sales invoice clerk shall have no access to physical stock or accounting records.

13) The credit note shall be prepared only after ascertaining the fact from the despatch section and the sales department for the goods received back from the customers. Credit notes are to be prepared in quadruplicate. One is to be retained with the invoice department, second copy is to be sent to despatch department, third copy to the sales department and fourth copy to the customer.

14) In case sales are cancelled, a notice is to be given to the despatch department to stop despatch of goods.

15) The invoice can be cancelled only by the sales department. All sales invoices must be printed and numbered in serial order.

16) The sales ledger shall be maintained by a separate clerk.

17) Periodical statements should be sent to debtors.

18) In the case of credit sales regular confirmation should be obtained from the customers regarding the outstanding balances. The confirmation of balances must be verified by a senior person other than the ledger clerk.

19) A sales ledger control account shall be balanced with the control account periodically.

20) A sales ledger control account in the general ledger shall be maintained.

21) Credit to employees can be allowed only after proper authorization from the management.

22) Separate department should be set up to deal with sales on consignment, hire purchase, goods on sales or return etc.

23) The stock held by the agents should be verified periodically with the statements received from the agents.

24) The goods sent on sale or return basis but unsold on the date of the balance sheet should not be treated as sales but unsold stock.

Internal check system with regards cash received on sales is suggested under the caption "cash sales". The internal check of the sales department included the suggestions given for internal check on cash sales.

INTERNAL CONTROL

Internal control is a broad term which is normally used to control financial and non-financial activities. It involves a number of checks and controls exercised in a business to ensure efficient and economic working

Internal Control is defined 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

Internal control is a “process.” Internal control is not one event or circumstance, but a series of actions that permeate an entity’s activities. These actions are persuasive and are inherent in the way management runs the business.

Objective of Internal control

The reason a company establishes a system of control is to help achieve its performance and profitability goals and prevent loss of resources by fraud and other means. Internal control can also help to ensure reliable financial reporting and compliance with laws and regulations. The entity’s internal control system consists of many specific policies and procedures designed to provide management with reasonable assurance that the goals and objectives it believes important to the company will be met.

1. From the clients point of view.
a. Internal control system provides authentic and reliable data useful to take business decisions.
b. It safeguards the physical and non-physical assets in the form of records, documentation etc.
c. It promotes operational efficiency, by preventing waste, duplication of work and inefficient use of resources.
d. A good system of internal control provides that the company follows the procedures and rules as required by the law.

2. From auditors point of view.
An auditor evaluates a system of control before commencing an audit work his work becomes easier if the control system is efficient. He can also decide whether detail verification is necessary or not.

Components of Internal Control

Internal control consists of five interrelated components:
1 control environment;
2 risk assessment process;
3 the information system, communication, and related business processes;
4 control procedures;
5 monitoring of controls

Techniques for evaluation of internal control system

There are three stages involved in the evaluation of an internal control system these are: 1) ascertaining the System 2) Testing Compliance 3) Evaluating the System. It is mentioned that: ""Evaluation of internal control system requires the auditor to ascertain the system of internal control, test compliance and evaluate the reliability on the internal control system. The evaluation of internal control system can be performed through either flow chart or questionnaires of internal control system".

The most common techniques of internal control evaluation are the flow charts and the internal control questionnaires, in this regard it is stated that: """Different techniques may be used by an auditor to gain an understanding of, and record information relating to, an internal control system. The selection of a particular technique is a matter of the auditor's judgment. Two most common techniques of internal control evaluation are the flow charts and the internal control questionnaires. The auditor may prepare flow charts of the various categories of transactions in order to have an understanding of the system. An internal control questionnaire lists a series of questions, which an auditor may wish to ask in order to understand and evaluate an internal control system

There are three stages for evaluation the internal control system, i.e. ascertain the system, testing compliance, evaluating the reliability on the control system. The independent auditor cannot rely totally on the work of the internal auditor unless he ascertain the reliability of the internal control system with decision by him on the degree of his reliability on the internal auditor work depend on the result of his evaluation. The techniques for internal control system evaluation can be either by flow chart or by questionnaires. Many auditing organizations such as Indian Institute of Chartered Accountants (ICAI) produced the questionnaires for internal control system evaluation. Like the independent auditors, the host countries auditors need to evaluate the internal control system of the operator under audit. This type of evaluation is necessary, basically for the first audit, to decide the reliability of the internal control system. The audit from prospective of host countries is normally not following sampling method, it is 100% audit. Although this audit follows 100% audit, there are many points under audit judged by the auditor based on the reports of the engineers, therefore the audit risk here is very high and needs accurate evaluation for the internal control system. the auditors should minimize risk of audit which is very high in petroleum industry because the costs are mainly generated from pure technical activities (exploration activities, development activities, and production activities).

To facilitate the accumulative of the information necessary for the proper review and evaluation of internal controls, the auditor can use one of the following to help him to know and assimilate the system and evaluate the same:

(1) Narrative record;

(2) Check list;

(3) Questionnaire; and

(4) Flow chart;

(1) The narrative record is a complete and exhaustive description of the system as found in operation by the auditor. Actual testing and observation are necessary before such a system is in operation and would be more suitaed to small business. The basic disadvantages of narrative records are:

1. To comprehend the system is operation is quit difficult.

2. To identify weaknesses or gaps in the system

3. To incorporate charges arising on account of reshuffling of manpower, etc.

(2) A check list is a series of instruction and/or answer. When he completes instruction, he initials the space against the instruction. Answers to the check list instruction are usually Yes, No or Not applicable. This is again an on the job requirement and instructions are framed having regard to the desirable element of control. A few examples of check list instruction are given hereunder:

1. Are tenders called before placing orders?

2. Are the purchases made on the basis of a written order?

3. Is the purchase order form standardized?

4. Are purchase order forms are pre-numbered?

5. Are the stock control accounts maintained by persons who have nothing to do with:

(1) Custody of work;

(2) Receipt of stock;

(3) Inspection of stock; and

(4) Purchase of stock?

The complete check list is studied by the principle/manager/senior to ascertain existence of internal control and evaluate its implementation and efficiency.

(3) Internal control questionnaire is a comprehensive series of questions concerning internal control. This is the most widely used from for collecting information about the existence, operation and efficiency of internal control in an organization.

(4) A flow chart is a graphical presentation of each part of the company's system of internal control. A flow chart is considered to be the most concise way of recording the auditor's review of the system. It minimises the amount of narrative explanation and thereby achieves and consideration or presentation not possible in any other form. It gives bird's eye view of the system and the flow of transactions and integration and in documentation, can be easily spotted and improvements can be suggested.

Internal Control Questionnaire

The traditional method of describing internal control is to fill in a standardized internal control questionnaire. Many public accounting firms have developed their own questionnaires for this purpose. The questionnaire usually contains a separate section for each major transaction cycle, enabling the work of completing the questionnaire to be divided conveniently among several audit staff members.

Most internal control questionnaires are designed so that a "no" answer to a question indicates a weakness in internal control and requires the auditors to identify types of potential misstatements arising there from. In addition, questionnaires may provide for a distinction between major and minor control weaknesses, an indication of the sources of information used in answering questions, and explanatory comments regarding control deficiencies. A disadvantage of standardized internal control questionnaires is their lack of flexibility. They often contain many questions that are "not applicable" to specific systems, particularly systems for small companies. Also, the situation in which internal control strength compensates for a weakness may not be obvious from examining a completed questionnaire.

An internal control questionnaire is intended as a means for the auditors to document their understanding of internal control. If completion of the questionnaire is regarded as an end in itself, there may be a tendency for the auditors to fill in the "yes" and "no" answers in a mechanical manner, without any real understanding or study of the transaction cycle. For this reason, some public accounting firms prefer to use written narratives or flowcharts in lieu of, or in conjunction with, questionnaires.

The questionnaire is annually issued to the client and the client is requested to get it filled by the concerned executives and employees. If on a perusal of the answers, inconsistencies or apparent incongruities are noticed, the matter is further discussed by auditor's staff with the client employees for a clear picture. The concerned auditor then prepares a report of deficiencies and recommendation for improvement

Internal Control Questionnaire Cash Receipts—Sales Cycle

Client________________________ Audit Date__________________________

Names and Positions of Client Personnel Interviewed______________________________________

Question

- Are all persons receiving or disbursing cash bonded?
- Is all incoming mail opened by a responsible employee who does not have access to accounting records?
- Does the employee assigned to the opening of incoming mail prepare a list of all checks and money received?
  a) Is a copy of the listing of mail receipts forwarded to the accounts receivable department for comparison with the credits to customers' accounts?
  b) Is a copy of this list turned over to an employee other than the cashier for comparison with the cash receipts records?
- Are receipts from cash sales and other over-the-counter collections recorded by sales registers or point-of-sale terminals?
- Are the daily totals of cash registers or other mechanical devices verified by an employee not having access to cash?
- Are physical facilities and mechanical equipment for receiving and recording cash adequate and conducive to good control?
- Is revenue from investments, rent, concessions, and similar sources scheduled in advance so that nonreceipt on due date would be promptly investigated?
- Do procedures for sale of scrap materials provide for direct reporting to accounting department concurrently with transfer of receipts to cashier?
- Are securities and other negotiable assets in the custody of someone other than the cashier?
- Are collections by branch offices deposited daily in a bank account subject to withdrawal only by home office executives?
- Are each day's receipts deposited intact and without delay by an employee other than the accounts receivable bookkeeper?
- Are the duplicate deposit tickets returned by the bank and compared with the cash receipts record and mailroom list of receipts by an employee other than the cashier or accounts receivable bookkeeper?
- Are the duplicate deposit tickets properly filed and available for inspection by auditors?
- Are NSF checks or other items returned by the bank delivered directly to an employee other than the cashier and promptly investigated?
- Is the physical arrangement of offices and accounting records designed to prevent employees who handle cash from having access to accounting records?

Internal Control in Computerised Environment

In a manual information system, no one employee should have complete responsibility for a transaction, and the work of one person should be verifi ed by the work of another handling other aspects of the same transaction. The division of duties in such a manner ensures accurate records and reports and protects the company against losses from fraud or carelessness.

In an IT-based system, work normally divided among many employees may be performed electronically. Consolidation of activities and integration of functions are to be expected, since technology can conveniently handle many related aspects of a transaction. For example, a computerized payroll system could maintain personnel fi les with information on seniority, insurance, and the like; calculate employee pay; distribute labor costs; and prepare payroll checks and payroll records

Despite the integration of several functions in an IT-based system, the importance of internal control is not in the least diminished. Although IT has created some challenging problems for professional accountants, it has also broadened the horizons of these professionals and expanded the range and value of the services they offer. Technology is more than a tool for performing routine accounting tasks with unprecedented speed and accuracy. It makes possible the development of information that could not have been gathered in the past because of time and cost limitations. When a client maintains accounting records with a complex and sophisticated IT-based system, auditors often fi nd it helpful, and even necessary, to utilize technology in performing many auditing procedure.

The auditor should take the following steps in addition to the normal audit procedure while auditing the computerised accounts.

1) Computerised accounting involves the code list for various types of accounts. The auditor should obtain the list of such codes and ensure that they are correctly used.

2) In manual accounting procedure each and every stage of recording the transactions is visible viz Preparing vouchers, passing entry, posting in ledger, casting, balancing, grouping, pre-paration of trial balance and final accounts. However, when the accounts are computerised it is not possible for the auditor to check each and every stage of recording the transactions as every thing is done by the computer behind the screen. Therefore, in such a situation it becomes necessary for the auditor to ensure that the functioning of the computer is correct and reliable. For this purpose he should select a sample of some transactions for processing and should compare the results obtained through computer processing with predetermined result.

3) In case of computerised accounts, the records of transactions are stored on floppy disks as back up data. These disks are affected by heat, dust etc. The auditor should ensure that proper precautions have been taken by the client for the safe custody of such disks.

4) He should ensure that client has made a proper arrangement for protecting the computer data from "Virus".

5) He should ensure that there is proper control over the use of computers by the various users through "Passwords"

6) He should ensure that there is proper maintenance of computers by doing servicing at regular intervals. This will reduce the chances of break down and losses of records.

7) The accuracy of computer output depends upon the correctness of input. He should ensure that there is a proper system for checking of the output with the inputs on a regular basis.

8) Lastly, he should ensure that changes in software programs are carried out by authorised person only and such changes are property noted for future reference.

Internal Control v/s Internal Check

Point	Internal check	Internal control
1. Meaning	It is a system of allocation of responsibility, division of work and methods of recording transactions, whereby the work of one employee is checked continuously by another.	It is the system of control established by the management in order to carry on business in an orderly and efficient manner, ensure adherence to management policies, safeguard assets and completeness of records
2. Relation	It is a part of Internal Control.	It includes Internal check and Internal audit.
3. Essence	It is arrangement of book-keeping and clerical duties.	It includes the essence of Internal check and internal audit.
4.How are they implemented	Checks are automatic and continuous.	It includes the implementation of Internal check and Internal audit.
5. Nature	Checks are objectives.	It includes Internal check and Internal audit.