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INTERNAL CHECK AND CONTROL SYSTEMS IN ARTS, SCIENCE AND COMMERCE COLLEGES AFFILIATED TO UNIVERSITY OF MUMBAI.



ABSTRACT: -

Internal check can be defined as a system of instituting checks on the day-to-day transaction that operate continuously as a part of the routine system, whereby the work of one person is proved independently or is complementary to the work of another, the objective being the prevention and early detection of errors and frauds. Internal Check System involves prompt and independent verification of an individual's work by prescribing cross checks and cross reconciliations as a part of operating procedure itself. Internal check has been defined by the Institute of Chartered Accountants of England and Wales as the "checks on day-to-day transactions which operate continuously as part of the routine system whereby the work of one person is proved independently or is complementary to the work of another, the object being the prevention or early detection of errors or fraud". Internal check is a part of the overall internal control system and operates as a built-in device as far as the staff organization and job allocation aspects of the control system are concerned. A system of internal check in accounting implies organization of system of book keeping and arrangement of staff duties in such a manner that no one person can completely carry through a transaction and record every aspect thereof. The essential elements of a goods system of internal

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check are: (i) Existence of checks on the day-to-day transaction. (ii) Which operate continuously as a part of the routine system? (iii) Whereby the work of each person is either proved independently or is made complementary to the work of another. Its objective is to prevent and to bring about a speedy detection of frauds, wastes and errors The system is based on the principle that when the performance of each individual in an organization, normally and automatically, is checked by another, the chances of occurrence of errors, or their remaining undetected, are greatly reduced; also that, when two or more persons essentially must combine either to receive or to make a payment, there will be lesser possibility of a fraud being perpetrated by them. Such a division of responsibilities is made on the broad principle that persons having physical custody of assets should not have access to the books of account. Also apart from accounting control, periodically the physical and financial records of important assets should be reconciled.

KEYWORDS: Internal check, Internal Control, Environment of Internal Control.

INTRODUCTION : Internal Check System

The scope of the statutory or professional audit is limited by the both the cost and the time factors. Therefore, it is increasingly being recognized that for an audit to be effective, especially when the size of a concern is large, the existence of a system of internal check is essential. The auditor can rely on it and, on that consideration, reduce the extent of detailed checking to be carried out by him but only after he has checked its effectiveness by the

application of procedural tests. It must, however, be added that in the event of any mistake or fraud being discovered subsequently in the area of accounts which the statutory auditor has accepted to be correct, he may be guilty of negligence regardless of the fact that he had tested the internal check in operation before he has accepted it to be correct.

General Considerations in Framing a System of Internal Check

- a) No single person should have an independent control over any important aspect of the business. All dealings and acts of every employee should, in the ordinary course, come under the review of another.
- b) The duties of members of the staff should be changed from time to time without any previous notice so that the same officer or subordinate does not, without a break, perform the same function for a considerable length of time.
- c) Every member of the staff should be encouraged to go on leave at least once in a year. Experience has shown that frauds successfully concealed by employees are often unearthed when they are on leave.
- d) Persons having physical custody of assets must not be permitted to have access to the books of account.
- e) There should exist an accounting control in respect of each important class of assets; in addition, these should be periodically inspected so as to establish their physical condition.
- f) To prevent loss or misappropriation of cash, mechanical devices, such as the automatic cash register, should be employed.
- g) A majority of business concerns now-a-days work according to some kind of budgetary control. It enables them to review from time to time the progress of their trading activities. Such business houses should have a separate staff for the collection of statistical figures which later on should be checked with the corresponding figures from the financial books. If wide discrepancies are observed, these should be reconciled.
- h) For stock-taking, at the close of the year, trading activities should, if possible, be suspended. The task of stock-taking, and evaluation should be done by staff belonging to several sections of the organisation. It may prove dangerous to depend exclusively on the stock section staff for these tasks, since they may be tempted to under or over-state the stock.
- i) The financial and administrative powers should be distributed very judiciously among different officers and the manner in which these are actually exercised should be reviewed periodically.
- j) Procedures should be laid down for periodical verification and testing of different sections of accounting records to ensure that they are accurate.
- k) Accounting procedures should be reviewed periodically, for, even well-designed and carefully installed procedures, in course of time, cease to be effective.

INTERNAL CONTROL SYSTEM: THE CONCEPT

As per SA-315, the system of internal control may be defined as “the plan of organisation and all the methods and procedures adopted by the management of an entity to assist in achieving management’s objective of ensuring, as far as practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, prevention and detection of fraud and error, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information. The system of internal control extends beyond those matters which relate directly to the functions of the accounting system. The internal audit function constitutes a separate component of internal control with the objective of determining whether other internal controls are well designed and properly operated.”

- a) Transactions are executed in accordance with managements general or specific authorization;
- b) All transactions are promptly recorded in the correct amount in the appropriate accounts and in the accounting period in which executed so as to permit preparation of financial information within a framework of recognized accounting policies and practices and relevant statutory requirements, if any, and to maintain accountability for assets;
- c) Assets are safeguarded from unauthorized access, use or disposition; and
- d) The recorded assets are compared with the existing assets at reasonable intervals and appropriate action is

taken with regard to any differences.

Benefits of Internal Control System:

- a) Assurance that all transactions are completely and accurately processed.
- b) Confidence that only authorized transactions takes place.
- c) Assurance that adequate documentation supporting transactions is created and retained.
- d) Assurance that the company's assets and liabilities are correctly stated, in order for them to make informed decisions on the operations of the business.
- e) Minimization of the risk of fraud and misappropriation of assets.

ENVIRONMENT OF INTERNAL CONTROL

The environment in which internal control operates has an impact on the effectiveness of the specific control procedures. The control environment means the overall attitude awareness and actions of directors and managements regarding the internal control system and its importance in the entity. A strong control environment, however, a strong environment does not, by itself, ensure the effectiveness of the overall system of internal control.

The internal control environment may be affected by:

a) Organizational structure: The organizational structure of an entity serves as a framework as practicable, to preclude an individual from overriding the control system and should provide for the segregation of incompatible functions. Functions are incompatible if their combination may permit the commitment and concealment of fraud or error. Functions that typically are segregated are access to assets, authorization, execution of transactions, and record keeping.

b) Management supervision: Management is responsible for devising and maintaining the system of internal control. In carrying out its supervisory responsibility, management should review the adequacy of internal control on a regular basis to ensure that all significant controls are operating effectively. When an entity has an internal audit department, management may delegate to it some of its supervisory functions, especially with respect to the review of internal control. This particular internal audit function constitutes a separate component of internal control undertaken by specially assigned staff within the entity with the objective of determining whether other internal controls are well designed and properly operated.

c) Personnel: The proper functioning of any system depends on the competence and honesty of those operating it. The qualifications, selection and proper training will help in maintaining a system of internal control. It is clear from above that internal control means not only internal check and internal audit but it encompasses the whole system of accounting as well as non-accounting controls 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 its records. It also follows that a good system of internal control should comprise among other the following;

- i. The proper allocation of functional responsibilities within the organisation;
- ii. Proper operating and accounting procedures to ensure the accuracy and reliability of accounting data, efficiency in operation and safeguarding of assets;
- iii. Quality of personnel commensurate with their responsibilities and duties; and finally;
- iv. The review of the work of one individual by another whereby the possibility of fraud or error in the absence of collusion is minimized.

The scope of internal control can be extended beyond accounting and financial matters. However, financial and accounting controls primarily concern an accountant; and the other administrative controls installed by the management may have only an indirect significance for him. Non-financial control may include quality control of the products, plant maintenance programme, operating reports, statistical analysis, personnel training programme, etc.

Accounting and financial controls include budgetary control, standard costing, bank reconciliation, self-balancing ledgers, periodical operating statements, internal auditing, etc.

OBJECTIVES OF THE STUDY

The data given below in the tabulated form states in the Internal Check and Control Systems adopted by 42 Arts, Science and Commerce colleges affiliated to University of Mumbai.

Table: The Internal Check System at Arts, Science & Commerce College affiliated to University of Mumbai :

Variable	Response	
	No	%
Availability of Internal Check System in the Colleges		
Yes	42	100.00
No	00	00.00
Total	42	100.00

Interpretation: All the respondent colleges (i.e. 100.00%) under the study follow internal check system.

The information given in the following table indicates the internal control system adopted by the colleges.

Table: The Internal Control System at Arts, Science & Commerce College affiliated to University of Mumbai:

Variable:	Response	
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Availability of Internal Control System in the Colleges		
Yes	42	100.00
No	00	00.00
Total	42	100.00

Interpretation: All the respondent colleges (i.e. 100.00%) under the study follow internal control system.

CONCLUSION

Majority of the colleges are having at least one to three members for monitoring the transaction through internal check system. In the internal check system if more number of people is involved it leads to high degree of accuracy in transactions and also help to bring better control on the financial aspect of the college.

All the colleges monitor the transactions by internal check method as it is very effective. It detects errors & frauds also assure the college in bringing accuracy & reliability of books of accounts. Observance & follow-up method also help to monitor the accounting transaction in smoothly manner.

All the colleges affiliated under the University of Mumbai follow internal check system. It reduces the possibilities of errors and frauds. It also helps to keep control on the working staff by cross checking the transactions. All the colleges affiliated under the University of Mumbai follow internal control system as it helps to monitor and a measure college's resources so that financial goals are met while all appropriate regulations are followed. It helps to minimise the errors and frauds, safeguarding of assets.

- No single person should have an independent control over any important aspect of the activity. All dealings and acts of every employee should, in the ordinary course, come under the review of another
- The duties of members of the staff should be changed from time to time without any previous notice, so that the same subordinate does not, without a break, perform the same function for a considerable length of time.
- Every member of the staff should be encouraged to go on leave at least once in a year. Experience has shown that frauds, successfully concealed by employees are often unearthed when they are on leave.
- Persons having physical custody of assets must not be permitted to have access to the books of accounts.

- There should be an accounting control in respect of each important class of assets; in addition, these should be periodically inspected, so as to establish their physical condition.
- To prevent loss or misappropriation of cash, mechanical devices, such as the automatic cash register, should be employed.
- For stock-taking, at the close of the year, activities should, if possible, be suspended. The task of stock-taking, and evaluation should be done by staff belonging to several sections of the college. It may prove dangerous to depend exclusively on the staff in –charge of stock, since they may be tempted to do the cover –up.
- The financial and administrative powers should be distributed very judiciously among different members of the staff and the manner in which these powers are actually exercised should be reviewed periodically.
- It is desirable that the management also installs an internal audit system as an independent function to check, amongst other things, the actual operation of the internal control system and report to it the deviations and non-compliances.
- The internal auditor should obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. The internal auditor should use professional judgement to assess audit risk and to design audit procedures to ensure that it is reduced to an acceptably low level.
- The internal control system should be evaluated periodically so that any discrepancies, conflicts, if any, found can be immediately rectified for their smooth functioning.
- There should be provision for giving ideas, suggestions for the improvement of the internal control system and also should have the provision for implementation of suggestions.

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