

SUBJECT- AUDITING

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INTERNAL CHECK- MEANING

The internal check is an arrangement of the duties of the staff members of the accounting functions in such a way that another automatically checks the work performed by a person.

What is Internal Check?

In the opinion of Spicer and Pegler, "A system of internal check is an arrangement of staff duties, whereby no one person is allowed to carry through and to record every aspect of a transaction so that without collusion between two or more persons, fraud is actuated and at the same time the possibilities of errors are reduced to the minimum."

L.R. Dicksee defines an internal check as

"Such an arrangement of book-keeping routine that errors and frauds are likely to be prevented or discouraged by the very operation of the book-keeping itself."

Internal check means practically a continuous internal audit carried on by the staff itself, using which other members of the staff independently check the work of each individual.

An internal check has been defined by The Institute of Chartered Accountants of England and Wales (ICAEW) as: "the checks on day to day transactions which operate continuously as part of the routine system, where the work of another, the object is the prevention on early detection of errors or frauds."

An internal check is a continuous process and is part of the day-to-day routine. It relates to all the transactions that take place every day. An internal check is achieved by a complimentary allocation of duties and by independent verification of the work of one person by another.

* Essential characteristics of internal check system

Certain qualities are needed to make an internal check system more effective and efficient. Such qualities are known as features of internal check system, which are as follows:-

1. Division of work → No one should be allowed to have the right to perform the work from origin to end.

For example— a transaction of sale may have to be split into a display of article by staff, the preparation of invoice by another, the receipt of cash against the invoice by a third clerk, the delivery of article against the proof of receipted invoice by another clerk, checking of outward movement of an article against delivery order by a clerk and so on.

In big business houses, such specialized tasks increase the speed of work and automatically introduce internal checks.

2. Provision of check :-

An organization should set up such provisions so that work can be checked by another staff. An officer can check the work of one staff by transferring to the staff and again.

3. Use of Devices :-

In this modern world, various devices can be used to do various functions like the use of time record machines, wage determination machines, etc. An organization should use machines that help to make work of internal check easier.

4. Self-Balancing System :-

An organization can use self-balancing ledger accounts, which help to make the work of internal check easier. Its effectiveness depends on its management.

5. Job Rotation :-

No individual clerk should be allowed to occupy a particular area of operation for long. Familiarity with and exclusiveness in a position offer a person greater flexibility to attempt manipulation with the system.

6. Specialization :-

Every staff may not have such specialized knowledge to maintain accounts properly. So, an organization should give the training to increase their skills so that internal checks can be made more effective.

7. Control :-

There is more chance of frauds where there is direct contact between Government and the public. So, a manager can keep eyes in that works so that the internal check system can be made more effective.

8. Authority level :-

There must be clear cut authority levels according to sections to various transactions. Commensurate to the authority vested, responsibility must be extracted. The existence of authority levels results in a review of the operations of subordinates.