

AUDITING

INTERNAL VS EXTERNAL



INTERNAL AUDIT

- WHAT IS INTERNAL AUDIT
 - It is an independent examination of financial information
 - To express an opinion
 - To assert the economic actions
 - To report to the top management



INSTITUTE OF INTERNAL AUDITORS, USA DEFINES

“**Internal audit** is an independent, objective assurance and consulting activity designed to add value and improve an organization operations. It helps operations, it helps an organization accomplish its objectives by bringing a systematic , disciplined approach to evaluate and improve the effectiveness of risk management, control and governance process“



INTERNAL AUIT IS TO BE

- Independent
- Objective examination
- Systematic process
- Evaluate evidence
- Examine financial statements



Internal Audit is to be done by

- Physical examination
- Verifying the documents
- Re-computation
- Verifying book-keeping procedures
- Scanning
- Enquiry
- Examining subsidiary records
- Analyzing financial statements



Internal Auditor has to check

- The assets
- Investments
- Inventories
- Debts
- Loans & Advances
- Provision-Tax, Dividend, Gratuity etc



Internal Auditor has to ensure

- Internal check is sufficient
- Internal controls are adequate
- Management policies are followed
- Cost effectiveness
- Accounting assets
- Appraise the work of staff



The need for Internal audit arise on

- Organization's size and operations
- employment strength
- Operation with more locations
- Highly specialized activity
- Statutory audit confines to certifying financial statements



Employees psychology

- Misunderstanding
- Looking as fault finders
- Super controllers



What is Internal Check system

- A system whereby a work is processed through more than one person in the process of documentation
- Examples:
 - A receipt is prepared and entered in cash/bank book. Its posting to ledger is done by another one.
 - Billing is done by one, verified by another, payment received by cashier & material delivered in delivery section
- Such system in all the works are called as 'Internal check'.



What is Internal Control System

- Internal control is little different from internal check
- The system introduced in documentation, authorization on Receipts, Payments, possession of important documents and materials among the administrative staff of various ranks is called as Internal control system



Examples of Internal control

- Printing of cash Receipt Books with serial numbers
- Receipts are to be given for custody to the HOD or other responsible officials to be allowed to draw against acknowledgement
- Authorizing officials for passing payments with maximum amounts and naming the person
- To have double key system for 'IRON SAFE'
- To document the daily cash flow and its deposit into Bank on the next day
- Authorizing cheque signing with maximum amount
- To check cash balance daily
- To Reconcile the Bank balance every month



Benefits of Internal Check & Internal Control

- Eliminates the possibility of Fraud
- Reduces the mistakes
- Detects errors in the process itself
- Allows smooth functioning due to proper empowerment



Who can be appointed as Internal Auditor

- An employee of the organization
- An outsider with/without necessary qualification



EXTERNAL AUDIT

- An auditor appointed from outside is an external auditor
- For Assn. of persons whose gross revenue do not exceed Rs.1 Lac in a year the external auditor need not be a qualified one.
- Even a member of Assn. May be appointed as auditor



- If revenue exceeds Rs.1 lakh a qualified chartered Accountant only can be appointed as Auditor

TYPES OF EXTERNAL AUDITS

- 1-Statutory audit
- 2-Special audit
- 3-Government audit



STATUTORY AUDIT

- The law of the country specifies –the qualification required to be appointed as auditor
 - Company Law, Income Tax Law, Trust Act,
 - Societies Act, Sales Tax Act



SPECIAL AUDIT

- Audits arranged for investigating the affairs of the firm/company through an outside qualified auditor is called special audit.
- It may be
 - To find out the mismanagement that led to injure the trade, Industry & public
 - To find out the net asset value for a merging / amalgamating company , etc.
 - The auditor may be of practicing or non practicing chartered Accountant



GOVERNMENT AUDIT

- Comptroller & Auditor General of India with state Accountant General Office carry out the audit of all Central Gov. Departments and undertakings
- All state gov. departments and undertakings are audited by AG's audit wing
- The auditors are employees of the Gov.



Internal audit Vs. External Audit

- **Internal Audit**

- Is not a statutory requirement
- Employee can be the auditor
- Verifies beyond financial records
- Involves in stock valuation
- Professional qualification not required
- Reports to the Chief / Director
- Internal investigation audit not done

- **External Audit**

- It is a statutory requirement
- Outsider only can be the auditor
- Verifies only the financial records
- Not involves in stock valuation
- Professional qualification required
- Reports to the share holders/ Trustees
- Investigation audit is done



Contd-

- **Internal audit**
 - No code of conduct
 - Actionable by management
 - No Legal requirements
 - Involves in all internal controls
 - Monitor internal check system
 - Tax authorities do not accept their certificate
 - Involves in internal projects
- **External audit**
 - Bound by code of conduct
 - Actionable through courts
 - To confirm to legal requirements
 - Attends to final accounts
 - Confirm the internal check system
 - Tax authorities accepts certificates
 - Not involves in internal projects



THANKS

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