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**DEPARTMENT OF COMMERCE**

**JANTA KOSHI COLLEGE BIRAUL, DARBHANGA**

**FOR-LNMU -B.com part - 3<sup>Rd</sup> Paper-viii – Principles of Auditing**

**Revision notes Unit- 2 Audit programme**



**Easy to Understand the concept**

## Audit working papers

### Meaning and Definition

The term audit working papers designate the files of analysis, summaries, comments and Correspondence built by an auditor during the course of the field work of an audit engagement. These Papers contain essential facts about the accounts which are under audit.

**According to Arnold W. Johnson,** " Audit working papers are the written private Materials, which an auditor prepares for each audit. They describe the accounting information which He receives from his client, the methods of examination used, the conclusions (and reasons thereof) And the financial statements."

**According to Jack C. Robertson,** "Working papers are auditor's own evidence of Compliance with generally accepted auditing standards and of the decisions respecting all procedures Necessary in the circumstances unique to the audit engagement."

They consist of draft copies of trial balances, adjusting entries, accounts analysis, schedules Of debtors and creditors summaries of reconciliation statements, certificates of official comments, Copies of correspondence between auditors and debtors, creditors and bank, detailed schedule of Items like depreciation, inventories previous audit reports, important quarries with explanation audit Programme and other important materials.

## **Objectives of Audit working papers**

**The working paper serves following purposes:**

- 1. They represent the volume of work performed by the auditor and his staff, which helps in Preparing the report.**
- 2. They show the extent of adherence to accounting principles and auditing standards.**
- 3. They are useful as evidence against the charge of negligence.**
- 4. They act as guide for subsequent examinations.**
- 5. They enable the auditor to know the weakness of the internal check system in operation As also the accounting system.**
- 6. They assist the auditor in coordinating and organizing the work of audit clerks.**
- 7. They assist in planning and performance of audit work.**

## Internal Control

### Meaning and Definition

Internal control is a broad term with a wide coverage. It covers the control of whole Management system. Internal control involves a number of checks and controls exercised in a business To ensure its efficient and economic working.

**According to The American Institute of Certified Public Accountants,** “Internal control Comprises of the plan of organization and all the coordinate methods and measures adopted Within a business to safeguard its assets, check the accuracy and reliability of its accounting data To promote operational efficiency and to encourage adherence to prescribed managerial Policies.”

**The system of internal control can be defined as,** “the plan of organization and all the methods And procedures adopted by the management of an entity to assist in achieving the management’s Objectives of ensuring, as far as practicable, the orderly and efficient conduct of its business.”

In brief it can be stated that internal control includes not only internal check and Internal audit but the whole system of controls, financial and otherwise, established by the Management in order to carry on the business of the company in an orderly manner, to safeguard its

**Assets and to secure as far as possible the accuracy and reliability of records.**

### **Objectives/Need of the Internal Control:**

- 1. Providing reliable data: Business decisions require accurate information to run the business efficiently. Examples of significant areas where management requires reliable information are fixation of selling prices, production directives depending upon requirements etc. With the efficient internal control in place, the accurate, required and reliable information can be provided for taking the important decisions and efficient performance of the activities.**
- 2. To promote operational efficiency: the controls within an organization are meant to prevent unnecessary duplication of efforts, protect against waste in all aspects of business and discourage other types of inefficient use of resources so as to promote the operational efficiency.**
- 3. To encourage adherence to the prescribed policies: the system of internal control is meant to provide reasonable assurance that procedures and rules of various institutes are followed by company personnel.**

4. **Safeguarding assets and records:** the physical assets of the company can be stolen, misused Or accidentally destroyed if not properly protected by adequate controls. The internal control Helps to safeguard the physical assets and to secure the accuracy and reliabilities of the Records of the company.

## **Internal Check**

### **Meaning and Definition:**

**Internal check is the valuable part of the internal control. It is an arrangement of the duties of Members of staff in such a manner that the work performed one person is automatically and Independently checked by the other.**

**According to F.R. M.e paula,** “internal check means practically a continuous internal Audit Carried on by the staff itself, by means of which the work of each individual is independently Checked by other members of the staff.”

**According to D.R. Davar,** “ Internal check is a system or method introduced with defined Instructions given to staff as to their sphere of work with a view to control and the verification of their Work and also the maintenance of accurate records as the ultimate aim.

**According To Joseph Lancaster,** “The internal check is a method of organizing the entire Operations, office, warehouse, factory and the duties to the respective staff so that frauds and Irregularities are impossible without collusion.”

### **Objectives of internal check:**

- 1. To exercise moral pressure over the staff.**
- 2. To ensure that the accounting system produces reliable and adequate information.**
- 3. To provide protection to the resources of the business against fraud, carelessness and in Efficiency.**
- 4. To distribute work in such a manner that no business is left unrecorded.**
- 5. To allocate duties and responsibilities of each clerk in such a way that he may held Responsible for particular fraud or error.**
- 6. To increase the efficiency of clerks because the allocation of duties is based on the principle Of division of Labours.**

7. To detect errors and frauds easily if it is committed, because in an efficient internal check System, there is a provision for independent checking.

### Advantages of Internal Check:

1. **Proper division of work:** internal check entails a proper and rational distribution of work Among the members of staff of the enterprise keeping in view their individual qualifications, Experience and area of specialization.
2. **Detection of errors and frauds:** since no individual worker is allowed to handle a job Completely from the beginning to the end, and the work of each clerk is automatically Checked by the other, this helps in the early detection and discovery of errors and frauds.
3. **Increased efficiency coupled with economy:** A good system of internal check increases the Efficiency of work among the staff and leads to overall economy.
4. **Convenience to auditor:** where an organization is operating the system of internal check, The statutory auditor may conveniently avoid detailed checking of the transactions. He



may Apply a few tests here and there and can relieve himself from detailed checking.

5. **Accuracy of the accounts can be relied upon:** If there is a good system of internal check the Owner of the concern may rely upon the genuineness and accuracy of the accounts.
6. **Increase in Profits:** overall efficiency and economy in operations result in more profits- thus Ensuring larger dividends for the owners or shareholders.

### **Internal Check With Regard To Sales:**

The system of internal check regarding sales should take care of followings:

1. On receipt of the order, it should numbered and preserved in Orders Received Book with full Particulars.
2. The Dispatch Department should be given a copy of the order with necessary particulars.
3. The Dispatch Department should take steps to pack the goods as per order.

- 4. The statement of goods as prepared by the Dispatch Department should be checked with The customer's order and then invoice will be prepared in triplicate by means of carbon Papers.**
  
- 5. A responsible official should check the invoice particularly the rates charged and calculations Made.**
  
- 6. With the help of the copy of invoices entries should be made in Sales Day Book.**
  
- 7. On dispatch of the goods records should be made in the Goods Outward Book.**
  
- 8. Two copies of the invoice may be sent to customer who will return one of them after signing It. It will serve the purpose of delivery note. Third copy will be retained for further Reference.**
  
- 9. Entries should be made in Goods inward Book for all the goods returned by the customers. Credit notes should be prepared and should be duly checked and initialed by the responsible Official.**
  
- 10. With the help of credit notes, records should be made in the Sales Return Book.**