



6.4.2: Institution conducts internal and external financial audits regularly

Financial audits are critical activities carried out by organisations to assure the accuracy, integrity, and compliance of their financial records. Internal and external audits are critical to ensuring openness, accountability, and confidence among stakeholders. In this section, we'll look at the importance of internal and external financial audits, as well as how they affect an institution's overall financial health.

Internal financial audits:

Internal financial audits are carried out by an institution's staff or an internal audit team. These audits aim to examine the organization's financial processes, systems, and controls. The key goals of internal audits include:

1. **Ensuring Compliance:** Internal auditors assess whether the institution adheres to internal policies, procedures, and regulatory requirements. They identify areas of non-compliance and recommend corrective actions to mitigate risks.
2. **Risk Management:** Internal audits help identify and evaluate financial risks inherent in the institution's operations. By assessing risks such as fraud, errors, and inefficiencies, auditors assist in implementing measures to mitigate these risks and strengthen internal controls.
3. **Process Improvement:** Internal audits uncover areas for improvement by thoroughly reviewing financial processes and procedures. This might include optimising workflows, increasing productivity, and lowering expenses, all of which contribute to improved financial performance.
4. **Detecting Fraud:** Internal auditors play an important role in detecting and preventing fraudulent activity within the organisation. Auditors can preserve the institution's assets and reputation by thoroughly examining financial transactions and records for inconsistencies and instances of fraud.
5. **Management Accountability:** Internal audits help management understand the institution's financial health and performance. Audits encourage openness and prudent resource stewardship by making management accountable for their financial decisions and actions.

External Financial Audits:

External financial audits are conducted by independent, third-party auditors, typically certified public accounting firms. These audits provide an objective assessment of an institution's financial statements and are often required by external stakeholders such as investors, lenders, and regulatory authorities. The key objectives of external audits include:

1. **Ensuring Financial Accuracy:** External auditors examine the institution's financial statements to verify their accuracy and reliability. By confirming that the financial



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information presented is free from material misstatements and errors, external audits enhance the credibility of the institution's financial reporting.

2. Compliance Verification: External auditors assess whether the institution complies with relevant accounting standards, regulations, and legal requirements. By conducting thorough examinations of financial records and transactions, auditors ensure that the institution's financial reporting is by applicable guidelines.

3. External audits provide assurance to stakeholders, such as investors, creditors, and regulators, on the integrity of the institution's financial statements. Audits increase stakeholder confidence and trust by providing an impartial view on the fairness and accuracy of the financial information given.

4. Risk Identification: External auditors detect possible risks and weaknesses in the institution's internal controls and financial reporting procedures. By flagging areas of concern, auditors help management adopt remedial steps to reduce risks and enhance controls.

5. Increased openness: External audits increase openness by offering an objective assessment of the institution's financial performance and situation. Auditors promote more openness and accountability by sharing any important discoveries or concerns discovered throughout the auditing process.



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