AUDITING & ASSURANCE

VOUCHING,VERIFICATION&VALUATION

FOR SEM-V

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VOUCHING

- **Vouching** is a technical term that refers to the inspection of documentary evidence supporting and substantiating a financial transaction, by an auditor. It is the essence of auditing[1]
- Vouching is the practice followed in an audit, with the objective of establishing the authenticity of the transactions recorded in the primary books of account. It essentially consists of verifying a transaction recorded in the books of account with the relevant documentary evidence and the authority on the basis of which the entry has been made; also confirming that the amount mentioned in the voucher has been posted to an appropriate account which would disclose the nature of the transaction on its inclusion in the final statements of account. Vouching does not include valuation.

- OBJECTIVES OF VOUCHING • To ensure recording of all transactions. • To verify that all transactions recorded in the books of accounts are supported by a documentary evidence. • To verify the validity of the vouchers which support the entries and to ascertain whether these are authentic, addressed to the business and properly dated. • To verify that no fraud or error has been committed while recording the transactions in the books of accounts. • To ensure that the vouchers h

- Importance of Vouching
- Vouching forms the base for auditing and has an important part of Auditor’s duty. In case of negligence in vouching, the Auditor will be held responsible; he cannot escape from his duty, if he has done vouching carelessly. Following points show the importance of vouching –
- Vouching is equally important as passing of original entry in the books of accounts. If, original entry is wrong, it will affect every process of accounting entry and its impact will be till the end result. Similarly, vouching is base of all auditing process.
- Efficiency of vouching will decide the success of audit.
- Any errors and frauds are easily detectable if vouching is conducting in searching and intelligent manner.
- Intelligent and faithful vouching will establish reliability on financial statements, i.e., Profit and Loss account and Balance Sheet of any organization.
- If adequate internal control system exists, the Auditor may choose to do test checking instead of complete vouching.

- types of Voucher
- There are two types of vouchers –
- **Primary Voucher** – Original copy of written supporting document is called primary voucher. Like purchase Bill, cash memo, pay-in-slip, etc.
- **Collateral Voucher** – Copies of supporting documents which are not available in original are collateral voucher like duplicate or carbon copy of sale invoice.

SOME EXAMPLES OF VOUCHERS

- Sales:Sales order, sales invoice, goods outward register, cash receipt, bank pay-in-slip, etc
- Purchase: Quotations, purchase orders, purchase bills, goods inward register, etc
- Cash Payments: Demand note, cash receipt, cash memo, etc.
- Cash Received:Duplicate or carbon copy of cash receipt, contracts and correspondence with payee, etc.

VERIFICATION

- Verification means the act of assuring the correctness of value of assets and liabilities in the organization. It refers to the examination of proof of title and their existence or confirmation of assets and liabilities on the date of Balance Sheet.
- **Spicer and Pegler** defines Verification as, “An inquiry into the value, ownership and title, existence and possession and the presence of any charge on the asset”.
- **J. R. Batliboi** defines it as, “The auditor must satisfy himself that assets really existed at the date of the Balance Sheet and were free from any charge and that they have been properly valued”.

OBJECTIVES

The objectives of verification are as follows:

- To show the correct value of assets and liabilities.
- To know whether the Balance Sheet exhibits a true and fair view of the state of affairs of the business.
- To find out the ownership, possession and title of the assets appearing in the Balance Sheet.
- To find out whether assets are in existence.
- To detect frauds and errors, if any while recording assets in the books of the concern.
- To find out whether there is an adequate internal control regarding acquisition, utilization and disposal of assets.
- To verify the arithmetic accuracy of the accounts.
- To ensure that the assets have been properly recorded

AUDITOR'S DUTY REGARDING VERIFICATION

- Ensuring the existence of assets.
- Acquiring the assets for business.
- Legal ownership and possession of the assets.
- Ensuring the proper valuation of assets.
- Ensuring that the assets are free from any charge.

IMPORTANCE

Assure Shareholders
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Increase Goodwill
3
Easy for Sale
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Knowing the Real Position of Profit and Loss
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Easy to Get Loan
1
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Showing the Actual Financial Position
Easy to Get Compensation

- **Showing the Actual Financial Position:**

Balance Sheet is prepared to show the actual financial position of a business. If proper valuation is not made, such Balance Sheet does not provide true and fair information.

- **Ascertaining the Real Position of Profit or Loss:**

Depreciation and other expenses on assets will be incorrect if proper valuation of assets is not made. So, to calculate the actual amount of profit or loss, proper valuation of assets and liabilities is necessary.

- **Increase Goodwill:**

Proper valuation gives fair information about profitability and financial position of a business. So, people can get information which creates positive attitude towards company.

- **Assures Safe Investment to Shareholders:**

Verification and valuation provide actual information about assets and liabilities to the shareholders which assure safety of their investment.

- **Easy for Sale:**

At the time of sale of the company, it can be sold at the price which is enlisted in the Balance Sheet, but the assets whose valuation is not made need valuation before selling the company.

- **Easy to Get Loan:**

Companies disclose the Balance Sheet proved by auditor for public knowledge which increases the trust of the company. Hence, companies can easily obtain loan from financial Institutions.

- **Easy to Get Compensation:**

Whenever the loss occurs due to any incident, insurance company provides compensation on the basis of valuation of assets. So, the company can easily get compensation.

S. No.	Basis	Verification	Valuation
1.	Meaning	Verification establishes existence, ownership and acquisition of assets.	Valuation certifies correctness of the value of assets and liabilities.
2.	Evidence	The title deed, receipt for payments constitutes documentary evidence for verification.	The Certificate offered by the owner or directors or experts is the documentary evidence for valuation.
3.	Checking	The auditor is required to verify whether the value ascertained is fair one or not.	Critical examination of the value of assets and comparative analysis of different assets.
4.	View	Verification includes apart from valuation, the examination of ownership right, the existence of the asset in the business and its freeness from any sort of charge.	Testing the exact value of an asset on the basis of its utility.
5.	Work	Verification is a final work.	Valuation is the initial work and it need to be verified subsequently.
6.	Personnel	Verification is the work of auditor.	Valuation is the work of concerned authority or board(company).
7.	Time	Verification is made at the end of the year.	Valuation is made throughout the year.

BASIS FOR COMPARISON	VOUCHING	VERIFICATION
Meaning	Vouching means checking the accuracy of the transactions recorded in the books of accounts.	Verification means a process to substantiate the validity of assets and liabilities appearing in the Balance Sheet.
Basis	Documentary Evidence	Observation and Documentary Evidence
Examination of	Items of Profit & Loss account	Items of Balance Sheet
Carried out by	Audit clerks	Auditor
Time Horizon	Year-round	At the end of the financial year.
Objective	To examine the correctness, validity and completeness of the transactions.	To confirm the ownership, possession, existence, valuation and disclosure of the items appearing on the Balance Sheet.

VERIFICATION OF NON CURRENT ASSETS

GOODWILL: Goodwill is also an asset of the company. When any firm or company is purchased good will is also included in the purchase. To verify the value of goodwill auditor has to examine the purchase agreement. Auditor should find out from the purchase agreement that the amount of this asst is correct. Good will usually appear in the balance sheet at cost. There is no legal compulsion to write it. If company likes to write off then auditor should see that the amount written off is according the resolution of the board. Important point about goodwill is that it does not depreciate by use.

PATENT RIGHT:

- verify the ownership of patent by inspection of certificate issued in respect of grant of the patent.
- See that the renewal fees in respect of patent have been duly paid and debited to P/L A/c.
- The auditor may obtain confirmation letters from client's legal advisor as to validity & existence of patents.

COPYRIGHT:

- Obtain a schedule of copyrights held by the client.
- Verify purchase of copyright with reference to approval from competent authority and contract entered into between the author from whom copyright was purchased and the publisher,i.e the client.

PLANT & MACHINERY:

- He will go through the plant register containing detailed particulars of various items of plant & machinery. It should show separately for each item the original cost, addition to and sales from it during the year.
- The total of closing balances of all items of plant and machinery should be reconciled with the balances in the general ledger.
- If there has been any addition, it should be verified with the invoice of the machinery supplied.
- He should verify title deeds,agreements & other ownership documents.
- The auditor should periodically physically examine various items of plants and machinery,say once in every three or five years , depending upon the size of the concern.

INVESTMENTS:

- Verify the authorization for purchase of investment. Auditor should review board minute book (book which record the conclusion of meeting) for authorization.
- Vouch the entries in brokers contract note, share certificate and cash book.
- Examine the share certificate to ensure that the type of security and number of share agrees with investment account and that the share held in the company with its name.
- Verify that the investments are properly classified and disclosed as stated in Companies Act.
- 5. Audition should verify the Memorandum of Association to ensure authority for purchase such investment.
- 6. Where investments are in large numbers, the auditor should obtain the schedule of securities certified by a senior officer of the company.
- 7. Obtain the schedule of investment comprises for information about the name of the securities / investment, date of their acquisition, nominal/ face value, cost price, book value, paid up value market value, rate of interest applicable, dates of interest due, tax deduction, etc., at the date of Balance Sheet.

VERIFICATION OF CURRENT ASSETS

LOANS & ADVANCES:

- To obtain a list of all loans & advances outstanding and check the agreement of balances as shown in the schedule with those in ledger account.
- To inspect agreements to satisfy himself about the validity and accuracy of loans and advances granted.
- To see that there are acknowledgement of parties in respect of outstanding loans and advances.
- To see that loan, if material has been granted only when there is authorisation by MOA &AOA
- To verify that loans and advances are being recovered regularly by agreed instalments.

BANK BALANCE:

- Examine the bank reconciliation statement prepared as on the last day of the year.
- Examine whether a reversal of the relevant entries would be appropriate under the circumstances.
- In respect of fixed deposits or any other type of deposits with banks, examine the relevant receipts/ certificates, duly supported by bank advices.
- Remittances shown as being in transit should be examined with reference to their credit in the bank in the subsequent period.
- Examine whether suitable adjustments are made in respect of cheques which have become stale as at the close of the year.

VERIFICATION OF NON CURRENT LIABILITY

SECURED LOANS:

- The auditor should examine the AOA & MOA to know the power of the company to raise loan & its limits.
- He is required to go through the minutes of board to see whether there is authorisation of raising loan.
- He should enquire into the purpose of taking loan & whether the amount of loan has been utilised for that purpose.
- The loan agreement entered into between the client & borrower should be examined to know whether terms & condition are in the interest of the company.
- He will see that secured loan has been properly disclosed in balance sheet as per schedule 3 of companies act 2013.

VERIFICATION OF CURRENT LIABILITY

SUNDRY CREDITORS:

- The postings in purchase ledger are to be checked by verifying the books of prime entry. The postings may be checked for part of a year.
- The balances shown in creditors' schedule prepared by the management are to be verified with the statement of accounts obtained from the creditors.
- The credit entries relating to discounts, returns, rebates etc., made in the suppliers' accounts are to be verified with the statement of accounts obtained from them.
- The ledger accounts are also to be verified with Goods Inward Book to confirm that all goods received before the close of the year are duly accounted for.
- The Return Outwards Book is to be compared with the ledger accounts and confirm that all the returns are supported by the Credit notes of the suppliers.

THANK YOU!