VERIFICATION AND VALUATION OF ASSETS AND LIABILITIES

Contents:

Introduction

Spicer and Pegler have defined verification as "it implies an inquiry into the value, ownership and title, existence and possession and the presence of any charge on the assets". Verification is a process by which an auditor satisfies himself about the accuracy of the assets and liabilities appearing in the Balance Sheet by inspection of the documentary evidence available. Verification means proving the truth, or confirmation of the assets and liabilities appearing in the Balance Sheet.

Thus, verification includes verifying:-

1. The existence of the assets
2. Legal ownership and possession of the assets
3. Ascertaining that the asset is free from any charge, and
4. Correct valuation

Of course it is not possible for the auditor to verify each and every asset. It was held in Kingston Cotton Mills case that "it is not part of an auditor's duty to take stock. No one contend that it is. He must rely on other people for the details of stock in trade in hand".

However, as per the decision given in Mc Kesson and Robins case (1939) the auditor must physically inspect some of the assets. Now the auditor has to report whether the balance sheet shows true and fair view of the state of affairs of the company. Hence, he is required to verify all the assets and liabilities appearing in the balance sheet. In case of failure, the auditor can be held liable for damages.

According to the `statement of auditing practices' issued by ICAI, "the auditor's object in regard to assets generally is to satisfy that :-

1. They exist.

2. They belong to the client.

3. They are in the possession of the client or the persons authorized by him.

4. They are not subject to undisclosed encumbrances or lien.

5. They are stated in the balance sheet at proper amounts in accordance with sound accounting principles, and

6. They are recorded in the accounts.

While conducting verification following points should be considered by the auditor:-

1. Existence: The auditor should confirm that all the assets of the company are physically existing on the date of balance sheet.

2. Possession: The auditor has to verify that the assets are in the possession of the company on the date of balance sheet.

3. Ownership: The auditor should confirm that the asset is legally owned by the company.

4. Charge or lien: The auditor has to verify whether the asset is subject to any charge or lien.

5. Record: The auditor should confirm that all the assets and liabilities are recorded in the books of account and there is no omission of asset or liability.

6. Audit report: Under CARO the auditor has to report whether the management has conducted physical verification of fixed assets and stock and the difference, if any, between the physical inventory and the inventory as per the book.

7. Event after balance sheet date: The auditor should find out whether any event after the date of balance sheet has affected any items of assets and liabilities.

SCOPE OF VERIFICATION

Verification includes information on the following:-

1. That the assets were in existence on the date of the balance sheet

2. That the assets had been acquired for the purpose of business only

3. That the assets had been acquired under a proper authority

4. That the right of ownership of the assets vested in the organization

5. That the assets were free from any charge and

6. That the assets were properly valued and disclosed in the balance sheet.

OBJECTS OF VERIFICATION:

Following are the objects of verification of assets and liabilities

1. To show correct valuation of assets and liabilities.

2. To know whether the balance sheet exhibits a true and fair view of the state of affairs of the business

3. To find out the ownership and title of the assets

4. To find out whether assets were in existence

5. To detect frauds and errors, if any

6. To find out whether there is an adequate internal control regarding acquisition, utilisation and disposal of assets.

7. To verify the arithmetic accuracy of the accounts

8. To ensure that the assets have been recorded properly.

ADVANTAGES OF VERIFICATION

Advantages of verification are as under:-

1. It avoids manipulation of accounts

2. It guards against improper use of assets

3. It ensures proper recording and valuation of assets

4. It exhibits true and fair view of the state of affairs of the company.

TECHNIQUES OF VERIFICATION:

1. Inspection: It means physical inspection of the assets i.e. company cash in the cash box, physical inventory, inspection of shares certificates, documents etc. Inspection provides reliable audit evidence about the existence of the tangible assets inspected but not necessarily as to the ownership or value of such assets. It involves examining records, documents or tangible assets and provides audit evidence of varying degrees of reliability depending on their nature and source and the effectiveness of internal controls over their processing. Inspection also provides three major categories of documentary audit evidence, listed in ascending degree of reliability, viz:
(a) Evidence created and held by the entity;
(b) Evidence created by third parties and held by the entity; and
(c) Evidence created and provided to auditors by third parties

2. Observation: The auditor may observe or witness the inspection of assets done by others. The auditor, by observation, looks at a procedure being performed by others, for example the auditors observe the counting of stock by the entity's staff or the performance of internal control procedures as part of the conduct of an audit.

3. Confirmation: It means obtaining written evidence from outside parties regarding existence of assets. Confirmation involves obtaining response to an enquiry to corroborate information previously made available to the auditors in the course of the audit. Examples of direct confirmation are as follows:

(a) Confirmation of debts by communication with debtors;
(b) Confirmation of legal cases by communication with the entity's solicitors; and
(c) Confirmation of bank balances by communication with the entity's bankers.

VERIFICATION OF ASSETS AND LIABILITIES

Share Capital Share Capital

When there are new issues Share capital is a special sort of liability of a company. When share capital has been issued during the year, auditors should:
(a) Ensure that the issue is within the limits authorised by Memorandum and Articles of Association of the entity;
(b) Ensure that the issue was subject to directors' minutes and shareholders' approval, where applicable;
(c) Ascertain and evaluate the system for the control of issue; and
(d) Verify that the system has been properly operated. This will involve examining the prospectus (where applicable), application and allotment sheets, the share register, cash received records, share certificate counterfoils, and refunds to unsuccessful applicants.

Where Stock Exchange approval was required, the auditors should:
(a) Ensure that permission has been obtained. If it has not been given all the money subscribed is returnable;
(b) Ensure that all the money is maintained in a separate bank account until all conditions were satisfied;
(c) Ensure that the minimum subscription has been received. If there are not enough subscribers then the whole amount is returnable; and
(d) Vouch the payment of underwriting and other fees.

Where there are no new issues

When no new issue of shares has been made, the auditor should:
(a) Determine the total of shares of each class as stated in the balance sheet and obtain a list of shareholdings, which in total should agree with the balance sheet total;
(b) Test the balances in the share register with the list;
(c) If this is not possible at the balance sheet date, it may be permissible to do

it earlier provided that the auditor is satisfied with the system of control over transfers; and

(d) Where the share register is maintained by an independent firm of registrars, the auditor should obtain a certificate as to the accuracy and completeness of the shares and their holdings. The certificate should state that the balances on the share registers agree with the issued capital at the balance sheet date.

Loans advanced

Loans may of different types like :

(a) Loans against the security of land and buildings.
(b) Loans against the security of goods
(c) Loans against the security of stocks and shares.
(d) Loans against the security of insurance policies, and
(e) Loans against the personal security of the borrower.

Therefore, in each case, the duty of auditor in general is as under:

1. Verify whether object clause of the Memorandum provides for granting of such loans.

2. Examining whether a proper loan ledger has been maintained and it is up-to-date or not.

3. Examination of the security lodged against each loan. The loan agreement is to be scrutinized regarding the rate of interest.Due dates of instalment, penalty, interest, etc.

4. He should ascertain whether any loan is doubtful of recovery in which case a provision for the expected loss is to be made.

5. Except in case of a banking or finance company, auditor has to ascertain whether the purpose of advancing is connected with business or not. Section 227(4A) of the Companies Act, 1956 requires an auditor to report whether the parties to whom the loans are given are regular in payment of interest and principal and the terms of the loan are not prima facie prejudicial to the interest of the company.

(a) ***Loans against the security of Land and building***

1. The auditor has to examine the mortgage deed, see if the copy has been properly executed and registered in favour of the client.

2. The auditor has to examine the title deeds deposited with the mortgage deed.

3. The auditor, if required, has to examine the valuer's certificate in order to ascertain the value and sufficiency of the security.

4. The auditor has to confirm that the property is properly insured and insurance premiums have been paid in time.

5. The auditor has to examine the title of the Borrower to the property, etc.

6. If the mortgage is a second mortgage, the auditor has to confirm that the same is brought to the knowledge of the first mortgagee. In this case he has to take the acknowledgement of title deeds from the first mortgagee.

(b) Loans against the security of goods.

1. The auditor has to examine the nature of the goods and confirm that the goods are really belonging to the borrower. He should see whether the loan is granted against railway receipt, lorry receipt, dock warrant, Godown keeper's receipt etc.

2. In case goods are stored in the godown, he has to see that the rent of the godown is paid in full and the goods are fully insured.

3. The auditor should examine the value of the goods by comparing them with the present market value. Regarding quality and quantity, he may rely on the inspector's reports.

4. If the goods are of perishable nature, the auditor has to examine the turnover of the stock of the client.

(c***) Loans against the security of stocks and shares***

1. He should call for a statement of stocks and shares given as security and confirm that all of them are fully paid up.

2. He should see whether an instrument of transfer is properly stamped and is properly executed.

3. He should see that their value is properly disclosed as per the prevailing market rates.

4. He has to ensure that there is a sufficient margin on the loans advanced.

5. He has to see whether the charge is properly registered or not.

(***d) Loans against the security of insurance policy:***

1. The auditor should see that the policy has completed at least two years.

2. The auditor should confirm that all the premiums have been properly paid and the policy is in force by examining the latest premium receipt.

3. The auditor should ascertain that due notice of assignment has been given to the insurance company.

4. The auditor should see that the loan has been advanced on the basis of surrender value of the policy as certified by the insurance company.

5. The auditor has to ensure that the premium, if any, paid up by the lender to keep the policy in force is properly debited to the Loan Account of the borrower together with the usual interest.

(***e) Loans against the personal security of the borrower***

The auditor has to examine the documents like Promissory Note, Guarantor's details and Salary Certificate of the borrower, etc.

Sundry Debtors:

Sundry Debtors represents the amount recoverable from the customers for sale of goods or rendering of services.

1. The under mentioned procedure should be applied for verification of `Book Debts' or `Sundry Debtors' after receiving a schedule or list of debtors from the client.

(a) Direct confirmation of balances from debtors by sending confirmatory letters.

(b) Year-end Scrutiny of ledgers.

(c) Verification of the position of debts considered bad or doubt ful.

(d) Compliance with legal requirement or presentation.

2. The auditor should arrange to send the letter of confirmation of balances by the client as per client's records and see that the reply of confirmation is forwarded to his office directly. Usually this should be sent within 15 or 20 days of close of the year under the supervision of the audit staff. After the reply is received, the same should be tallied with the balances shown in the Debtors Ledger and difference properly reconciled.

3. After the said procedure is carried out, he should carry out a thorough scrutiny of the debtor's individual accounts. Wherever the number of debtors is very large, Test Checks can be applied.

4. While scrutinizing the ledger, the auditor should focus the light on discounts, returns, cash received, rebates allowed, goods returned etc.

5. On ascertaining the balances of the debtors as genuine and correct, the auditor has to verify the debtors to find out bad or doubtful debts to make a provision for the same. If the debts are bad and irrecoverable or doubtful and they are not provided for properly, the financial statements will not portray a `True and Fair' view. Hence, appropriate provision is to be made by considering the age of the debtor, scrutiny of payments received, management opinion and any other information like financial position of debtors, etc. If the auditor fails in verifying the appropriateness of the provision made, he shall be held liable for negligence.

6. After ascertaining the position of bad or doubtful debts, he should see that the legal requirements of Schedule VI to the Companies Act, 1956 are complied with. For this purpose, the debtors are to be classified as:

(a) Outstanding for a period of more than six months; and

(b) Other debts.

7. Over and above this, other requirements like debts considered as good and which are fully secured, debts due from the officers, directors, managers of the company, etc., are to be ascertained for disclosure.

8. If the customers have purchased the goods on hire purchase system and some of the instalments are not due, the same is not to be shown as `stock out on hire purchase'.

9. Likewise, if the goods are sold on `return or approval' basis, such customer cannot be shown as a debtor at the close of the year.

10. Further, whenever there are credit balances in some debtors account, the same are not to be deducted from other debtors debit balances and net balance is not to be shown in the assets side, but former is to be shown as Sundry Creditors.

Valuation of Inventory

Generally accepted accounting principles require that inventories be reported at the lower of historical cost or market (current replacement cost), provided that the carrying value should not exceed net realisable value (estimated selling price minus costs of completion and disposal) or be lower than net realisable value reduced by the normal profit margin. To achieve the valuation objective for inventories, the auditor should test the inventory costing. In addition, he should:
(a) Review and test procedures for identifying obsolete or slow-moving items;
(b) Review the costing of damaged or obsolete items to determine that the assigned value does not exceed net realisable value; and
(c) Review and test the determination of market prices to determine whether market value is lower than cost.

The auditor should:
(a) Consider not only finished goods but also work in process and raw materials that will eventually become finished goods in the review for obsolete items;
(b) Compare quantities with those in previous inventories on test basis to identify slow-moving items or abnormally large or small balances; and
(c) Reviews of usage records can provide further indications of slow-moving items.

If the client does not maintain perpetual records, the auditor may examine purchase orders or production orders to determine how recently certain items of inventory were acquired. Many companies have formulae or rules of thumb that translated overall judgements on obsolete stocks into practical detailed applications, for example:
(a) All items over a year's supply;
(b) All items that have not moved within six months; and
(c) All items bearing certain identifying numbers with regard to date or class of product.

The auditor should review whether the rules are realistic and comprehensive enough as well as whether they are fully and accurately applied. In addition to reviewing and testing the client's rules, the auditor must evaluate, based on an understanding of the client's business climate, whether inventory can be realised in the normal course of operations. Past experience can be a good guide to the net realisable value of items that must be disposed of at salvage prices.

When certain finished goods are declared obsolete or severe markdowns are required, consideration should be given to related raw materials and work-in process inventories write down.

Patent and Trademarks:

1. The ownership of patent rights is verified by inspection of certificate issued for grant of patent, by the prescribed authority.

2. If it has been purchased, the agreement surrendering it in favour of the client should be examined.

3. If there are a number of patents held by the client, obtain a schedule giving the full details thereof or verify with reference to the register maintained by the client.

4. It must be verified that patent rights are alive and legally enforceable and renewal fees have been paid on due dates and charged to Revenue Account. The last renewal receipt should be examined to ascertain that the patent has not lapsed.

5. See that the patents are properly registered in the name of the client only.

6. See that the cost of patent is being written off over its useful period of life.

7. In case the patent is acquired, cost paid for the same and all relevant expenses are to be capitalized.

8. If the patent is created by the client by the research experiments and laboratory work, only the actual expenses incurred for it in the process are to be capitalised.

Copyrights

1. The auditor has to examine the written agreement of assignment along with the royalty paid to the authors etc., for such copyrights.

2. He has to see that such assignments are properly registered.

3. If the client is the owner of many copyrights, the auditor should ask the client to prepare a schedule of copyrights and get the detailed information to confirm that the same is shown in the Balance Sheet.

4. Regarding the value of copyrights, it should be remembered that this asset has no value in the long run. Hence, value is determined on revaluation basis and period of copyrights.

5. If any copyright doesn’t command the sale of any books, then the same should be written off in such year. The auditor has to verify the same in detail.

Investments:

Investment may be a share certificate, government bond certificate, government loan certificate, debenture certificate, etc. For verification of such securities, the following procedure is adopted.

1. Obtain a schedule of investments in hand at the beginning of the audit period. Obtain the details of description of investments together with distinctive number of face value, date of purchase, book value, market value, rate of interest, date of payment of interest or, date around which dividend is declared, etc., with also the details of interest or dividend received along with tax deducted at source.

2. Add to the above list, purchase made during the year and delete the investments sold during the year with all the above details.

3. Balance this schedule and compare the balance with general ledger and Balance sheet.

4. Check the market value of investments with reference to stock exchange quotations or other suitable method, on Balance Sheet date and see that the values are disclosed in the Balance sheet.

5. Inspect the certificates or securities physically on the Balance Sheet date.

6. Compare the income received with amount due and adjust the accrued income.

7. Confirm the uncalled liability on partly paid shares held as investment shown as contingent liability by way of a note to the Balance Sheet.

8. See that adequate provision is made for any shortfall in the book value of investment shown in the Balance Sheet.

9. See that, regarding the investment in subsidiaries, disclosure requirement of section 212 of Schedule VI of the Companies Act, 1956 are complied with.

10. For investment in the capital of partnership, the partnership deed and copy of accounts of partnership firms, is to be verified. Also adjust the share of profit and loss for the partnership period.

11. Investments which stand in the name of persons other than that of the company are to be confirmed with appropriate sanction.

12. For investment lodged with others as security or lying with banks or share brokers, obtain a certificate from the parties concerned.

13. In case of application money paid for shares which are still to be allotted, that fact is to be specially disclosed in the Balance Sheet.

Goodwill

1. Whenever the company has purchased or acquired a running business and has paid for it an amount, in excess of the book value of its net assets, the excess is called `Goodwill’. It can be verified from the vendor’s agreement and

the auditor has to see whether there is a specific sum which is paid or whether it is the excess of price paid over the tangible assets and see that it is properly recorded.

2. When the company has written up the values of all its assets on a revaluation and has raised a Goodwill Account in the books, the Goodwill appears in the Balance Sheet. In this case, the auditor has to see the basis of valuation and get satisfied about the same. If he is not satisfied, the fact should be reported to the shareholders.

3. He has to see that such excess is credited to a Capital Reserve or Revaluation Reserve and no dividend is being declared from it.

4. He has also to see the disclosure requirement of Schedule VI and ensure that the fact are disclosed for 5 years subsequent to the date of revaluation.

5. Sometimes, Goodwill which is written off earlier may be brought back in the books of account to adjust the debit balance of Profit and Loss account. In this case, the auditor should investigate the fact and satisfy in full before approving such method of creating Goodwill. He should also refer to the board resolution. In case he is not satisfied, the fact should be reported to the shareholders.

6. If Goodwill has been created by any other means, the auditor should see that all relevant facts are properly disclosed and are supported by documentary evidence.

Plant and Machinery:

1. Now-a-days as per provision of Section 227(4A) of the Companies Act, 1956 every company is required to maintain a Fixed Asset Register showing full particulars including cost, location, depreciation, details of purchase, expenses capitalised, etc. Therefore, the auditor should ask for such a register maintained by the client and see that all items of plant and machinery are recorded properly giving full details.

2. As per the provision of the same section, all fixed assets are required to be physically verified by the management. Therefore, the auditor should enquire whether such physical verification was undertaken or not. If yes, he should ask

for necessary papers pertaining to the same. If there is any discrepancy, reasons for the same should be asked.

3. Any new purchase made during the year are to be verified with reference to purchase invoice and other papers regarding installation of the same.

4. Total value of plant and machinery as shown by Fixed Asset Register should tally with ledger account maintained in the financial books.

5. Where any item of plant and machinery is sold, scrapped or transferred the auditor should check relevant entries for the same and verify that they are removed from the Fixed Assets Register.

6. The auditor should verify that adequate depreciation is provided on all items of plant and machinery and method of depreciation is consistently followed from year to year.

7. Auditor should see that the entire plant and machinery stands in the name of the client and are free from any charge or encumbrances. If plant and machinery is mortgaged, then he has to verify that the documents are properly executed and mention of mortgage is made in the Balance Sheet.

Freehold Property (Land & Buildings):

1. The auditor has to examine the title deeds of the property owned by the client and confirm that the same is freehold.

2. If the property has been purchased during the year, the auditor has to examine the correspondence with the broker, or solicitor in details.

3. When a building has been constructed on the freehold property, the same is to be verified from builder’s bill or architect’s certificate.

4. Where the title deeds are deposited with the mortgagee on a mortgage, then a certificate from him to that effect is to be obtained for verification.

5. If the title deeds are deposited with the bankers or solicitors for safe custody, the auditor should get a certificate from them to confirm the fact.

6. If required, the auditor should ask the solicitor of the client to confirm the validity of the title deeds relating to the property.

7. The auditor has to see that the conveyance of the property is in the name of the client and the same is properly registered.

8. The auditor has to ensure that the property is properly insured.

9. The auditor should see that separate account for land and building is maintained, because on land, usually no depreciation is provided.

10. In case there is appreciation of land and buildings value by revaluation, the auditor has to see the basis of revaluation and confirm that the same is properly disclosed in the Balance Sheet, to comply with the generally accepted accountancy principles and also the provision of Companies Act, 1956.

Preliminary, Expenses

1. These are the expenses incurred for creating or incorporating a company i.e. legal expenses for drafting Memorandum of Association, Articles of Association, Stamp fees, etc.

2. Auditor should check the prospectus or the statement in lieu of prospectus for amount of preliminary expenses.

3. Contract with promoters, vendors, underwriters should be checked.

4. Board of Directors authorization for payment of expenses should be checked. Receipts should be obtained for payments.

5. Actual expenditure for preliminary expenses should not exceed amount mentioned in prospectus or statement in lieu of prospectus. Such excess should be approved by shareholders in general meeting.

6. Preliminary expenses can be written off against Share Premium Account (Section 78), if any.

7. Preliminary expenses should be written off in a reasonable number of years (usually 3 to 5 years).

8. Preliminary expenses to the extent not written off should be shown under Miscellaneous Expenditure, on the Asset side of the Balance Sheet.

9. Preliminary expenses written off during the year should be shown separately in the Profit & Loss Account.

Trade Creditors:

1. The auditor should ask for a schedule of creditors and check the same with the purchase ledger as that is already examined by him.

2. He should ensure that all purchase made during the year especially at the end of the year are included in the accounts of the creditors.

3. In case of suspicion about any creditors, the auditor with the consent of the client can ask the statement of account to be sent and verify the same by scrutinizing ledger accounts.

4. He should see the various debts given for discount, goods returned etc, and confirm that the same are genuine.

6. The auditor should ask for the reason for not paying any overdue creditors.

DIFFERENCE BETWEEN VOUCHING AND VERIFICATION

Point of Difference	***Vouching***	***Verification***
1. Meaning	The act of examining the vouchers is known as vouching. A voucher is any documentary evidence in support of a transaction entered in the books of account.	Verification can be explained as establishing the truth or securing some kind of confirmation with respect to the assets and liabilities appearing in the Balance Sheet of a concern
2. Nature & Purpose	Vouching involves establishing the arithmetical accuracy and the authenticity of the transactions of a concern. Vouching proves that an asset ought to exist.	Verification goes beyond vouching. It seeks to establish that assets as stated in the Balance Sheet of a concern exist in fact and that the liabilities are properly disclosed. Verification proves that an asset does exist.
3. Time	It is done during the whole year.	It is done at the end of the year.
4. Utility	Certifies correctness of records.	Certifies correctness of assets and liabilities.
5. Personnel	It is done by the junior staff of the auditor under the supervision of a senior person	It is done by the auditor himself assisted by senior

VOUCHING

MEANING OF VOUCHING

The examination of documentary evidence in support of transactions contained in the books of accounts is referred to as vouching. It is the technique followed in an audit for establishing authenticity of the transactions recorded in the primary books of accounts. It essentially consists of verifying the record of transactions contained in the books of accounts with the relevant documentary evidence and the authority on the basis of which the entries were made. It also consists of examining in the process whether 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.

According to Taylor and Perry, “Vouching is the examination of the evidence offered in substantiation of entries in the books, including in such examination the proof so far as possible, that no entries have been omitted from the books”.

According to Joseph Lancaster, “Vouching is a device used to prove that various transactions for the period are fairly, truly and sincerely reflected in the books of accounts”. So, from the above definitions, it can be said that, “vouching is a technique of auditing which checks the accuracy of entries made in the books of accounts with the help of available documentary evidences”.

OBJECTIVES OF VOUCHING

Vouching is concerned with examining documentary evidence to ascertain the authenticity of entries in the books of accounts. It is a technique used by the auditor to judge the truth of entries appearing in the books of accounts.

Success of an audit depends on the efficiency with which vouching has been conducted. The following are the objectives for which vouching techniques are adopted by the auditor:

i. To check that all transactions recorded in the books of accounts are supported by documentary evidence.

ii. To verify that no fraud or error has been committed while recording the transactions. iii. To see that each and every transaction recorded has been adequately authorised by a responsible person.

iv. To ensure that the distinction has been made between capital and revenue items while recording the transactions.

v. To have a greater precision in reporting the financial information as true and fair. vi. To ensure the reliability of the figures presented in the books of account.

vii. To confirm that no transaction has been recorded in the books of accounts, which are not related to the organisation under audit.

viii. To ensure the accuracy in totalling, carrying forward and recording of an amount in the accounts.

IMPORTANCE OF VOUCHING

The audit normally takes place long after the transactions have taken place, and the auditor, not being in picture at the time, cannot have the benefit of direct experience of the transactions. Necessarily, he has to depend on evidence and the voucher constitutes the necessary evidence of the transaction. The auditor's basic duty is to examine the accounts, not merely to see its arithmetical accuracy but also to see its substantial accuracy and then to make a report there on. This substantial accuracy of the accounts and emerging financial statements can be known principally by examination of vouchers, which are the primary documents relating to the transactions. If the primary document is wrong or irregular, the whole accounting statement would, in turn, become wrong and irregular. The auditor's role is to see whether or not the financial statements are wrong or irregular, and for this, vouching is simply essential.

The importance of vouching was also highlighted in the case of Armitage vs. Brewer & Knott (1930) in which it was held that vouching is an important part of auditor's duty. If he shows any negligence in exercising care while vouching the books of accounts, his clients can claim damages.

The success of an audit will depend on the efficiency with which vouching has been applied during the process of auditing. Various frauds can be detected only if vouching is conducted in an intelligent manner. Wherever an auditor suspects a fraud, he should also check the sources of documentary evidence. Sometimes fictitious bills of expenses and purchases may be obtained. Payments against these bills may be misappropriated. This type of fraud can be detected by the intelligent vouching only.

Thus it is clear from the aforesaid discussion that vouching perhaps constitutes the backbone of auditing. If vouching is conducted faithfully and effectively, it will help in establishing reliability of profit and loss account and balance sheet. So, vouching can be considered as the essence of auditing.

GENERAL PRINCIPLES OF VOUCHING

In conducting vouching appropriately and effectively, the auditor should follow certain principles, which are stated as below— i. While vouching a transaction, the auditor must verify the authenticity of the transaction, accuracy of amount recorded and proper classification of accounts.

ii. The voucher, which has already been checked by the auditor should be cancelled or tick marked with a special sign, so that it may not be used again for fictitious transactions.

iii. It should be seen that every voucher is authorised by an officer responsible for this purpose. iv. If there is any alteration in the vouchers, it must be supported by the concerned officer's initials. v. While vouching transactions, the auditor should keep in mind that the distinction is made between capital and revenue items.

vi. It should be seen that the date of the voucher falls within the accounting period. vii. It should also be ensured that the voucher is made out in the client's name.

viii. The voucher should include all the relevant documents which would be expected to have been received or brought into existence on the transactions having been entered into, i.e., the voucher is complete in all aspects.

ix. The account in which the amount of the voucher is adjusted is the one that would clearly disclose the character of the receipt or payment posted thereto on its inclusion in the final accounts.

x. All the vouchers should be numbered serially and dated. xi. The amount in the receipt must be shown in words and figures. If the two differs, then it should be investigated.

xii. If any voucher is missing, the concerned official should be asked to give proper explanation. If no satisfactory explanation is received, it should be further investigated.

TEEMING AND LADING: A CHALLENGE TO VOUCHING

Teeming and Lading is a method adopted to misappropriate cash. The misappropriation of cash is activated by making a false entry relating to a transaction, which in turn is cancelled by a further entry and so on until such fraud is discovered. This method is also known as “Delayed Accounting of Money Received” as it is a method of concealment of a shortage by delaying the recording of cash receipts. Example: Suppose, debts due from Mr. X is Rs. 50,000, from Mr. Y Rs. 1,00,000 and from Mr. Z Rs. 1,50,000. Now, say an amount of Rs. 50,000 is being received from Mr. X in discharge of his debt in the fi rst week of January, but no entry is made in the cash book by the cashier, who misappropriates the cash. Say, in the next month, when cash is received from Mr. Y amounting to Rs. 1,00,000, the cashier records Rs. 50,000 in the name of Mr. X and the remaining Rs. 50,000 in the name of Mr. Y. Again, in the next month, when Mr. Z pays his debt of Rs. 1,50,000, the cashier records Rs. 50,000 in the name of Mr. Y and Rs. 1,00,000 in the name of Mr. Z. Rs. 50,000 is to be shown in the balance sheet as amount due from Mr. Z. Thus, after a certain period of time, the amount due from Mr. Z has been written off as bad debt and the money received has been thus misappropriated. However, if it is detected by the auditor, immediately the cashier passes a false entry recording the receipts from Mr. Z by paying an amount of Rs. 50,000 out of his own pocket and thus the cashier utilizes the money of the business for a certain period of time without any authority. So, this type of fraud is a real challenge to the auditor. By adopting appropriate techniques of vouching, the auditor should detect this type of fraud and prevent misappropriation of cash. For the purpose, the auditor should take the following steps as a part of vouching technique: i. He should verify the debtor’s ledger, particularly those debtors who are making part payments of their dues.

ii. He may collect the balance confirmation certificate from debtors, whose accounts have been shown as due.

iii. Before the commencement of the work of vouching, he should evaluate the efficiency of the internal check system regarding the receipts of cash from the customers of the organisation.

iv. He should have a clear idea about the discount facility provided to the customers and the amount of bad debts to be written off.

v. If he suspects any fraud having already been committed, he should verify those transactions which have been shown in the cash book as deposited into bank and also checks the bank reconciliation statement.

vi. He should send the statement of accounts to the customers, whose accounts have been shown as due with a request that if a customer finds any discrepancy in the statement of account, he should contact the auditor without any delay.

VOUCHING OF DIFFERENT TYPES OF TRANSACTIONS

Vouching of Capital Expenditure

Capital expenditure means the expenditure relating to purchase of fixed assets. In order to vouch these types of transactions, it is to be seen the authenticity of the transaction, that it is properly authorised by authority and the amount of transaction is duly capitalized.

Land & Building

(a) *Documents to be Checked*
(i) Title deed (ii) Mortgage Deed in case of mortgaged property (iii) Broker's Note (iv) Contract (v) Receipts (vi) Architect's certificate (vii) Fixed Asset Register (viii) Minutes of the Directors' Meeting.

(b) *Duty of the Auditor*
i. The Land & Building may be freehold or leasehold. If it is freehold, it should be verified with the owner's title. But if it is leasehold, the lease deed should be examined.

ii. If the property is purchased directly from the vendor and if any contract is made with the vendor, that contract should have to be checked.

iii. It also requires to be examined whether the ownership title of the property in favour of the client is legal or not.

iv. The various incidental charges are required to be incurred for the purchase of land and buildings, e.g., registration expenses of the property. These expenses should be verified with proper documents and receipts and the auditor should also confirm that these expenses have been duly capitalized.

v. If any building is constructed for the purpose of the business, the contract made with the building contractor should be examined and in order to confirm the cost of construction, the certificate from the architect should be examined.

Assets Acquired under Hire Purchase System

(a) *Documents to be Check*
(i) Board's Minute Book, (ii) Hire purchase agreement, (iii) Fixed Assets Register, (iv) Receipts from the vendor, (v) Bank Statement.

(b) *Duty of the Auditor*
i. The Minutes Book of the Board Meeting should be checked in order to confirm that the purchase of assets on hire purchase system has been approved by the Board.

ii. The hire purchase agreement should be checked carefully and the description of the assets, cost of the assets, hire purchase charges, and terms of payment and rate of interest should be noted.

iii. It should be ensured that the concerned assets have been included in the related asset account at its cash value. It should also be checked that installments due have been paid according to the terms of the hire purchase agreement.

iv. It should be checked that the hire purchase charges applicable to the period from the commencement of the agreement to the end of the financial year have been charged against current profits.

v. It should also be confirmed that the asset acquired on hire purchase basis have been included at its cash value in the balance sheet and depreciation has been calculated on the cash value from the date of the purchase. The amount due to the hire purchase vendor in respect of the capital outstanding has either been shown as a deduction from the asset concerned or as a separate amount under current liabilities.

Trade Mark and Copyright

(a) *Documents to be Checked*
(i) Schedule of Trade Marks and copyright, (ii) Assignment Deed or Agreement, (iii) Contracts.

(b) *Duty of the Auditor*
i. A Schedule of Trade Marks and Copyright duly signed by the responsible officer should be obtained and the same should be scrutinized. It should be confirmed that all of them are shown in the Balance Sheet.

ii. The Written Agreement in case of assignment of copyright and the Assignment Deed in case of transfer of Trade Marks should be examined.

iii. Existence of copyright should be verified by reference to contract between the client and the other party.

iv. It should be seen that the value has been determined properly and the cost incurred for the purpose of obtaining the Trade Marks and Copyrights have been capitalized.

v. It should also be ascertained that the legal life of the Trade Marks and Copyright have not yet expired.

vi. It should also be ensured that the amount paid for both the intangibles and assets is properly amortized having regard to appropriate legal and commercial consideration.

Vouching of Investments

(a) *Documents to be Check*
(i) Broker's Purchase Note, (ii) Letter of allotment and calls, (iii) Share certificate or Debenture certificate, (iv) Bank Pass Book, (v) Receipts and (vi) Director's Meeting Minute Book.

b) *Duty of the Auditor*
i. The auditor should examine whether investment has been made in accordance with the governing laws. Generally the organisation has its own rules regarding investment of money outside the business. It is required to be verified whether these rules have been complied with or not. Apart from this, it has to be seen that the governing provisions of the Companies Act regarding investment has been followed or not.

ii. Investments are generally purchased through brokers. If the shares etc. are purchased through brokers, the price paid should be verified with broker's bill and the receipt.

iii. If the investments are purchased through banks, the Bank Pass Book should be checked. iv. On the basis of Director's Meeting Minute Book, the auditor should be confirmed about the approval of the Board for the purchase of investments.

v. The auditor should verify the title of the investment through register to confirm that the investments purchased have been transferred in the name of the company.

vi. If the investment is purchased at cum-dividend, it should be examined whether the purchase price has been shown properly under capital and revenue and the dividend receivable during the period has been accounted for or not.

Vouching of Borrowing from Banks

(a) *Documents to be Checked*
(i) Certificate from bank for securities deposited, (ii) Minute of the Board Meeting, (iii) Bank Statement, (iv) Letter of Loan Sanction, (v) Bank Pass Book.

(b) *Duty of the Auditor*
i. Borrowing from bank may be either in the form of overdraft limits or cash credit. The auditor should confirm about the type of the loan from the letter of loan sanctioned from the bank.

ii. Reconciliation of the balances in the overdraft or cash credit with that shown in the pass book should be done and it should be confirmed that the last mentioned balance by obtaining a certificate from the bank showing the balance in the accounts as at the end of the year.

iii. A certificate from the bank showing particulars of securities deposited with the bank as security for the loan should be obtained. It should be confirmed that the same has been correctly disclosed and duly registered with Registrar of Companies and recorded in the Register of Charges.

iv. The auditor should verify the authority under which the loan has been raised. In the case of a company, only the Board of Directors is authorised to raise a loan or borrow from a bank.

v. He should also confirm in the case of a company that the restrictions contained in Section 223 of the Companies Act as regards the maximum amount of loan that the company can raise have not been contravened.

vi. It should also be ascertained the purpose for which the loan has been raised and the manner in which it has been utilized and that this has not prejudicially affected the concern.

Vouching of Trading Transactions Credit Purchases

(a) Documents to be Checked

(i) Purchase invoices, (ii) Copies of orders placed, (iii) Goods received note, (iv) Copies of challans from supplier, (v) Goods inward register, (vi) Stock records.

(b) *Duty of the Auditor*
i. The main objective of vouching of credit purchases is to see that all purchase invoices are entered in the purchase book and the goods entered in the purchases books are actually received by the client and the client pays for only those goods which are delivered by the supplier.

ii. The auditor should examine the internal check system in force and should see that only credit purchases of goods are recorded in the purchase book.

iii. It should be confirmed that the purchase of goods is sanctioned by a responsible official and only those goods are purchased in which the organisation deals with.

iv. The goods purchased should be actually received by the client. For the purpose, the goods inward register, stock records and challans from the supplier should be verified.

v. The auditor should be more careful while vouching the purchases made in the first month and the last month of the accounting period, because sometimes the purchases of the last year may be included in the purchase of first month of the current year or purchases of the last month of the current year may be recorded in the next year. As a result, the profit and loss account of the current year will not present true and fair position of the operating results.

Vouching of Credit Sales

(a) *Documents to be Check*

(i)Sales invoices, (ii) Challans, (iii) Sales register/Goods outward register, (iv) Stock records, (v) Purchase order from customers.

(b) *Duty of the Auditor*
i. The main objective of vouching of credit sales is to see that all sales invoices are entered in the sales book and the goods sold entered in the sales book are actually disposed off by the client and the client receives for only those goods which are supplied to the customers.

ii. The auditor should examine the internal check system in force and should see that only credit sales of goods are recorded in the sales book.

iii. The sales register should be examined with copies of sales invoices. The sale of capital goods shall not be recorded in the sales book.

iv. The sales tax etc. collected through sales invoices must be recorded under separate accounts. v. It should be verified that all sales invoices are prepared on the basis of challans and then sales invoices are entered in sales book and from there, posted to the respective customer account. No sales invoice should be left unrecorded.

vi. Trade discount allowed to the customers should be checked. No separate entry for discount should be passed in the books.

vii. The statement of account should be verified by obtaining confirmation from the customers. viii. The auditor should be more careful while vouching the sales made in the first month and the last month of the accounting period, because sometimes the sales of the last year may be included in the sales of the first month of the current year and sales of the last month of the current year may be recorded in the next year. As a result, the profit and loss account of the current year will not present true and fair position of the operating results.

Vouching of Consignment Sale

(a) *Documents to be Checked*
(i) Consignment Day Book, (ii) Account Sales, (iii) Agreement between the consignor (client) and the consignee, (iv) Balance confirmation certificate from the consignee, (v) Pro-forma invoices, (vi) Goods outward book.

(b) *Duty of the Auditor*
i. It should be ascertained that credit has been taken only for the profit on the goods sold through the consignee before the year end. No profit should be taken for the profit on goods remaining in the hands of the consignee.

ii. Where it is desired to show the result of each consignment, the goods sent on consignment, through consignment day book, should be debited to the consignment account. The auditor should check debits in each of consignment account by reference to the pro-forma invoice, consignment day book, goods outward book, transport documents of the goods, acknowledgement of the goods by the consignee and the Account Sales.

iii. Credits in the consignment account should be verified with the help of the Account Sales received from the consignee.

iv. The agreement between the consignor and the consignee should be verified to check the commission and other expenses which are credited to consignee account.

v. It should be ensured that the stock lying with the consignee at the year end should be taken in the balance sheet at cost on a consistent basis and credited to consignment account to arrive at the result of the consignment transactions.

vi. Confirmation of the balance in the account of the consignee from the consignee should be obtained.

vii. Sometimes' the goods are consigned not at cost but at an inflated price. The auditor should see that the necessary adjustments to remove the loading are made at the end of the year.

viii. It is possible that the goods consigned are treated as ordinary sales. The auditor should see that necessary adjustments are made at the year's end in respect of the unsold goods, commission and the expenses incurred by the consignee. The consignee should not be shown as a debtor for unsold goods and in valuation of stock, these goods should be included in stock at cost worked out on a consistent basis.

Vouching of Goods on Sale or Return

(a) *Documents to be Checked*
(i) Receipt of approval from customer, (ii) Sales invoices, (iii) Stock Records, (iv) Goods Inward Book, (v) Goods Outward Book.

(b) Duty of the Auditor
i. The auditor should see that whether a separate record has been maintained for goods sold on approval basis,

ii. He should ensure that the goods sent has not been included in sales unless the customer has intimated his approval or the stipulated time limit for such approval has expired.

iii. The auditor should also check the internal control system in respect of sales on approval basis. Usually, on the receipt of approval from customers or expiry of time limit, sales invoices are prepared, a copy of which is sent to the customer.

iv. It should also required to be ensured that necessary arrangements have been made to get back the goods, if within the stipulated time, the customer informs about the return of the goods.

v. He should also verify whether the goods sent on sale or return basis has been taken in the closing stock as stock with customer, if no intimation has received from the customer or still the time limit has not expired.

vi. He should also get a statement from customer that the goods are lying with him on approval basis.

Vouching of Cash Book Collection from Debtors

(a) *Documents to be Check*

(i) Sales invoices (ii) Receipts issued to customers (iii) Statement of customers' accounts (iv) Existing and past discount chart (v) Correspondence with the customers.

(b) Duty of the Auditor
i. The auditor should first of all check the existing internal control system in respect of cash collection, particularly collection from customers. When cash is received from customers, a cash memo is issued; a counterfoil or carbon copy of such cash memo is retained by the receiving clerk. The auditor should verify the amount received from customers from that counterfoils or carbon copies issued.

ii. He should also ensure that amount received from customers has been entered in the cash book on the day it is received.

iii. He should also ensure that all these receipts are serially numbered. If any receipt is found to be missing, he should ask the clarification from the concerned officials.

iv. It should be seen that the discount allowed to customers is authorised by a responsible officer. In addition to that, the terms and conditions of discount should be properly ascertained and the discount rates should be compared with the rates prevailing in the market.

v. In case of suspicion, the auditor can contact the customers directly with the approval of the client to verify the receipt of cash from them.

Interest and Dividend Received on Investments

(a) *Documents to be Check*

(i) Bank statement (ii) Dividend warrant (iii) Schedule of Securities (iv) Agreement with party

b) *Duty of the Auditor*
i. While vouching dividends, the auditor should check dividend warrant counterfoils and covering letters received along with cheque.

ii. If the dividend and interest is collected through bank, the auditor should verify the amount from the bank statement. In case of warrant received and amount not yet collected by the bank, the auditor should ensure that it has been shown as cheque yet to be collected.

iii. While vouching interest, the auditor should check the fixed interest bearing security statement. Interest on bank deposit should be checked from the bank pass book. But if interest is on the loan given to a party, it can be checked from the agreement made with the concerned party.

iv. The auditor should ensure that all interest received and accrued have been accounted for in the books and properly shown in the balance sheet.

v. If interest or dividend is received for the pre-acquisition period, the auditor should see whether proper adjustment has been made with the cost of investment for this pre-acquisition dividend or interest.

Vouching of Bad Debts Recovered

(a) *Documents to be Checked*
(i) Notification from the court/bankruptcy trustee (ii) Letter from Collection Agency (iii) Letters from debtors (iv) Schedule of Bad Debts (v) Bank pass book.

(b) *Duty of the auditor*
i. The auditor should ascertain the total amount lying as bad debt. In some cases, the court distributes the amount recovered from the insolvent person to his creditors in proportion of their

claims. In this respect, total amount of debt, treated as bad from the party concerned plays a very important role.

ii. The auditor should ensure that all the bad debt recovery has been properly recorded in the books of account.

iii. Credit Manager's fi les are also to be checked properly for the purpose of ascertaining the actual amount recovered.

iv. The auditor should also ensure that the amount collected on account of bad debt recovery has been deposited into the bank promptly.

v. The amount recovered should also be counterchecked from the counterfoils or carbon copies of the receipt issued to the debtors. The auditor should also ensure that all these receipts are serially numbered.

Vouching of Insurance Claim Received

(a) *Documents to be Checked*

(i) Counterfoil of the receipt (ii) Insurance policy (iii) Statement of claim submitted (iv) Copy of the survey report (v) Correspondence with the insurance company.

(b) *Duty of the Auditor*
i. The auditor should check the counterfoil of the acknowledgement of receipt issued by the client to know the actual amount recovered from the Insurance Company.

ii. The auditor should examine the statement of the claim submitted by the client along with the insurance policy to ensure that the claim has been submitted according to the provisions in the insurance policy.

iii. All the correspondences with the insurer on final determination of claim and payment thereof should be examined along with the copy of survey report.

iv. The accounting treatment of the amount received should be seen in order to ensure that revenue is credited with the appropriate amount and that in respect of claim against an asset, the profit and loss account is debited with the shortfall of the claim admitted against the book value.

v. The auditor should also see that entries in the profit and loss account has been appropriately described, if the claim was lodged in a previous year but no entries were then passed.

Vouching of Cash Sales

(a*) Documents to be Check*

(i) Sales invoices (ii) Cash Sales Summary (iii) Copies of cash memo

(b) *Duty of the Auditor*
i. The system of internal check should be examined with the objectives of finding out the defects therein, if any, whereby cash sales could be misappropriated,

ii. The practice followed in the matter of issuing cash memos should be ascertained. Cash sales are usually verified with carbon copies of cash sales,

iii. One of the important matters to which attention of the auditor should be paid in the process is that the dates on the cash memos should tally with those on which cash collected in respect thereof has been entered in the cash book,

iv. The computation of sales should be ascertained by the auditor in order to verify whether the price of goods sold has been calculated correctly,

v. If a cash memo has been cancelled, its original copy should be inspected for as it could be that the amount thereof has been misappropriated,

vi. If cash collections are made through automatic cash registers, the daily totals entered in the cash book should be checked with the till rolls.

Vouching of Income from House Property

(a) *Documents to be Checked*
(i) Bills issued to tenants (ii) Tenancy agreement (iii) Rent receipts (iv) Statement of rent received (v) Rent reconciliation statement,

(b) *Duty of the Auditor*
i. The auditor should examine the rent received from house properties with the counterfoils of the rent receipts in order to ascertain the amount of rent and the period for which it is paid.

ii. He should check the copies of bills issued to the tenants by reference to the agreement with the tenant and charges paid by the client on behalf of tenants e.g. electricity charges.

iii. He should verify the statement of rent received prepared tenant-wise or property wise, if any, and check it with the Rent Register, if any maintained for the tenants.

iv. He should also vouch the entries for rent received in advance or accrued rent in order to see that proper adjustment entries are passed for the amount of rent pertaining to the accounting year concerned.

v. Reconciliation between the amount of rent received and the amount of rent receivable should be done by the auditor and if there is any difference, it should be enquired into. In this context, adjustment against, if any deposit should also be checked.

vi. The auditor should obtain a certificate from the responsible officer in respect of any vacant property during the year.

Vouching of Remuneration Paid to Directors

(a) *Documents to be Checked*

(i) Resolutions of the general meeting (ii) Articles of Association (iii) Agreement with the directors (iv) Director’s Attendance Register (v) Receipts issued by the directors.

(b) *Duty of the Auditor*
i. The auditor should check the terms and conditions of appointment of directors first by referring to the minutes of the general meeting.

ii. He should also examine the Articles of Association in order to ascertain the mode of payment.

iii. The agreement with the directors should also be checked to know the amount to be paid to the directors for attending board meetings and for other works by way of commission or otherwise. In this respect, the auditor should also check the director's attendance in the board meetings as available in the Attendance Register.

iv. It should be ensured that all the legal formalities as per the provisions of Sections 198, 309, 349 and 350 and Schedule XIII of the Companies Act, where applicable, have been duly complied with. v. Computation of the net profits and the commission payable to directors in terms of clause 4A of Part II of Schedule VI to the Companies Act should be checked thoroughly.

vi. The amount paid to the directors as their remuneration should also be checked with receipts issued by the directors for this purpose.

Vouching of Travelling Expenses

(a) *Documents to be Checked*
(i) Travelling Rules of the organisation (ii) Approved Tour Programmes (iii) Tour Report (iv) Board Meetings Minutes (v) R. B. I. Permission Letter (vi) Air, railways tickets etc.

(b) *Duty of the Auditor*
i. Before conducting vouching work of travelling expenses, the auditor should know the rules in the organisation on admissibility and rates of travelling expenses and daily allowances,

ii. The auditor should ensure himself first whether the travelling expenses have been incurred only on those tour programmes which are approved by the competent authority,

iii. The auditor then should thoroughly check the travelling expenses bills submitted by the employees along with the supporting vouchers as may be appropriate,

iv. The auditor then should also confirm himself that the statement of business done or tour report has been submitted by the employees and reviewed by the proper authority,

v. In case of foreign trip, the board's resolution should be seen to ensure that the trip has been sanctioned. The auditor should also ensure that necessary permission has been obtained from the Reserve Bank of India for foreign exchange transactions in connection with foreign trip,

vi. It should also be checked by the auditor that advances, if any, taken by the employees of this purpose have been properly accounted for.

Vouching of Cash Purchases

(a) *Documents to be Checked*

(i) Cash memo (ii) Cash bill (iii) Goods Inward Book (iv) Payment order (v) Original receipts from the payee.

(b) *Duty of the Auditor*
i. Cash purchase is an important area where the defalcation and mis appropriation of cash can be made possible. For this reason, it should be carefully examined by the auditor whether proper authorisation is there for such purchase from the appropriate authority.

ii. In case of emergency, cash purchase of goods may be made. So, the auditor should evaluate the situation under which cash purchase is made to ascertain the emergence of such purchase.

iii. Usually purchases of stores and stationery items are made on cash basis. So the auditor should ensure that there is adequate internal control system which will help in controlling manipulation of cash purchases.

iv. It should be seen that the goods purchased are actually received by the store keeper. For this purpose, cash memos can be compared with the entries in Goods Inward Book to verify the actual goods received.

v. The auditor can also check the discount facilities provided by the suppliers and ensure himself that only net amount after deducting discount availed have been entered in the books.

Vouching of Salaries and Wages Paid

(a) *Documents to be Checked*
(i) Salary bills (ii) Wage sheets or Pay roll (iii) Counterfoil of cheques (iv) Appointment letters (v) Service agreement (vi) Employment registers.

(b) *Duty of the Auditor*
i. For the purpose of vouching salaries and wages, the auditor is required to go through the internal procedure and to get confirmed that they are not altered since the last audit.

ii. The additions, calculations and castings of the salary bills and wage sheets should be properly checked by the auditor.

iii. The total amount paid for salaries and wages should be compared with the entries in the cash book. For this purpose, the auditor should compare the total of wage sheet and salary bill with the amount of cheque withdrawn. If there is any excess amount withdrawn, the auditor should ensure that they are deposited into the bank immediately.

iv. It should be the duty of the auditor to ensure that the unclaimed salaries and wages have been deposited into bank or the concerned cheque has been cancelled.

v. The auditor has to see whether the wage sheet and salary bill is duly certified by a responsible officer and to check the employment register for the purpose of finding out dummy employees and workers.

vi. He should further check attendance records, salary bill and wage sheets of earlier months and appointment letter of new employees. If there is an abnormal increase in the wages and salaries of a month over the previous month, he should inquire into the reasons for such increase.

Vouching of Payment of Sales Tax

(a) *Documents to be Checked*
(i) Periodical sales return (ii) Treasury challans (iii) Sales tax assessment order (iv) Reconciliation statement (v) Certificate from registered dealers.

(b) *Duty of the Auditor*
i. The auditor should see the receipted challans of the Reserve Bank of India or State Bank of India in support of the payment vouchers and should ensure that the amount of tax deposited agrees with the amount of tax payable as per the return submitted,

ii. He should also check sales tax register with the copies of invoices and confirm that proper sales tax has been charged, collected and deposited,

iii. He should check the calculations made in the returns and ascertain that the total liability as per returns agrees with the sales-tax collected and thus ensure that the sales tax payable and liability of each year are properly recorded,

iv. He should obtain the certificates from registered dealers to ascertain that the sales-tax returns agree with the sales-tax collected by them for the period as shown in different invoices,

v. Finally, the auditor should find out the total tax-liability and ensure himself that proper provision has been made in the accounts for the tax liability.

Vouching of Research and Development Expenditure

(a) *Documents to be Checked*

(i) Minutes of the Board Meeting (ii) Memorandum and Articles of Association of the client (iii) Annual Budget (iv) Receipts and other relevant papers from the third parties.

(b) *Duty of the Auditor*
i. The nature of research and development work has to be ascertained first by the auditor to ensure himself that it is related with the normal activities of the undertaking.

ii. The auditor should also ascertain whether the concerned research activity is authorised by the Board and has relevance to the objectives of the company and ensure that no expense unrelated to the research and development programme is allowed to be debited to this account.

iii. The auditor should check the accounting entries passed for this purpose. He should confirm that if the research expenses are paid for developing products or for inventing a new product, they are treated as deferred revenue expenditure to be written off over a period of three to five years, if successful. In case, it is established that the research effort is not going to succeed, the entire expenses incurred should be written off to the profit and loss account.

iv. He should also ensure that if any plant and machinery have been purchased specially for the purpose of research activity, the cost thereof, less the residual value is appropriately debited to the Research and Development Account over the years of research.

v. The auditor should see that the tax benefit arising out of the research and development expenses is taken into account in creating tax provision.

vi. Finally, he should ascertain the accounting policy of the concern regarding treatment of research and development expenditure

Vouching of Travelling Salesman's Commission

(a) *Documents to be Checked*
(i) Agreement with the salesman (ii) Receipts issued by salesman (iii) Statement of sales (iv) Appointment letters of the salesman (v) Commission statement.

(b) *Duty of the Auditor*
i. The auditor should see the appointment letter given to the salesman or the agreement with the salesman in order to know the rate of commission entitlement and other terms and conditions of his assignment.

ii. An examination of the statement submitted by the salesman regarding sales should be made and checked with the sales records in order to find out the amount of sales effected by the salesman. This is required as usually, sales commission is paid on the basis of sales effected through a salesman.

iii. The auditor should also check the statement of commission submitted by the salesman in order to check the accuracy of calculation of commission payable to the salesman.

iv. It should be ensured by the auditor that the commission is paid only on sales booked and executed within the year and the payment of commission should be vouched with the receipts signed by the salesman.

v. The auditor should also check whether provision has been made in the accounts for commission due but not paid to the salesman.

Vouching of Freight, Carriage and Custom Duty

(a) *Documents to be Checked*
(i) Freight note (ii) Transport receipts (iii) Rate schedule of transport charges (iv) Rate of custom duty (v) Custom duty payment challans (vi) Correspondence with transporters and customs authorities.

(b) *Duty of the Auditor*
i. The auditor should ascertain the nature of expenses first i.e., whether they relate to the purchase of raw-materials or purchase of assets or sale of goods as the accounting treatment of these expenses depend on the purpose for which they have been incurred.

ii. He should ensure that all the expenses incurred in this connection are properly authorised. iii. He should ascertain the possibility of duty drawback or refund of custom duty, if any, and see whether adequate adjustments have been made in the books of account for this purpose.

iv. The auditor should also refer to the terms and conditions of purchases and sales to know whether the expenses incurred in this connection are recoverable from the third party.

v. He should also check the adequacy of transit insurance to cover the risk of loss due to goods lost in transit.

vi. The auditor should also examine all the relevant documents and ensure that all the payments made in this connection have been fully accounted for.

Vouching of Preliminary Expenses

(a) *Documents to be Checked*
(i) Board's Minute Book (ii) Receipts for the registration fees paid (iii) Bills and receipts issued by the printers (iv) Prospectus (v) Statutory report (vi) Other supporting papers and vouchers.

(b) *Duty of the Auditor*
i. The auditor should ascertain first as to whether the expenses capitalized as preliminary expenses are actually connected with the formation of the company

ii. The expenses incurred for the formation of the business should be approved by the Board of Directors in their meeting. It is the duty of the auditor to see whether the expenses incurred has got due approval from the authority.

iii. The auditor should also justify the expenses from the angle of propriety aspect of the business. He should check the rightness of the amount of expenses.

iv. The accounting policy of the concern regarding writing off of preliminary expenses should also be evaluated in order to justify the appropriateness of the policy adopted.

v. In some cases, the approval from the shareholders is also required to be obtained for incurring expenses on account of preliminary expenses. The auditor should confi rm that the required approval has been obtained from the shareholders in this regard.

vi. The concern is also entitled to get exemption for the preliminary expenses incurred in computing business income under the Indian Income tax Act. The auditor should see whether this aspect is properly dealt with or not.

Vouching of Royalty Payable to a Foreign Collaborator

(a) *Documents to be Checked*

(i) Collaboration agreement (ii) Statement of royalty payable (iii) Permission from Reserve Bank of India (iv) Receipts from the foreign collaborator, (v) Other supporting papers and vouchers.

(b) *Duty of the Auditor*
i. The auditor should go through the agreement with the foreign collaborator to note the rate of royalty, method of calculation of royalty, mode of payments etc.

ii. He should also examine the statement showing detailed calculation of royalty payable and verify whether it has been calculated according to the agreement along with the checking of payment vouchers.

iii. He should confirm that adequate and necessary provision has been made for the royalty accrued but not yet paid to the foreign collaborator during the year.

iv. He should ensure himself that necessary permission has been obtained from the Reserve Bank of India for making payments outside the country, if royalty is required to be payable in foreign currency.

v. The auditor should also examine that the recovery of short-working facility is duly availed off.

vi. The amount of royalty paid or payable during the year should be compared with that of last year and reasons for variation, if significant, should be inquired into.

Vouching of Custom Duty Paid on Import of Machinery

(a) *Documents to be Checked*
(i) Accounts submitted by the clearing agents (ii) Deposit Account with Custom Authorities (iii) Receipts issued by Customs Authorities for payments made (iv) Statement of duty payable (v) Other supporting papers and vouchers.

(b) *Duty of the Auditor*
i. The auditor should ensure himself that the custom duty paid in connection with the import of machinery only and the machinery is purchased for the use of the business concerned.

ii. He should verify the amount of custom duty with reference to bill of entry duly stamped by custom authority.

iii. If the machinery is imported through clearing agents, the auditor should also refer the accounts submitted by the clearing agent in order to ensure total charges including custom duty on account of import of machinery.

iv. The payment of custom duty should be checked with the receipts received from the custom authority. v. The auditor should check the accounting aspect of custom duty paid against import of machinery, i.e., whether it has been capitalized by debiting machinery account.

Vouching of Insurance Premium Paid

(a) *Documents to be Checked*

(i) Insurance policy (ii) Insurance premium receipts (iii) Cover note issued by the Insurance Company (iv) Correspondence with the Insurance Company (v) Other supporting papers and vouchers

(b) *Duty of the Auditor*
i. For the purpose of vouching insurance premium paid on different policies first of all the adequacy of the insurance should be examined very carefully. It should be the duty of an auditor to review the insurance policy periodically in order to ascertain the under-insurance in each of the policies undertaken.

ii. The auditor should check the payment of insurance premium from the receipts obtained from the insurance companies.

iii. It should be ensured by the auditor that premiums are not in arrears and the prepaid insurance has been properly adjusted against subsequent premium payable.

iv. If the insurance premium paid against risk of fire etc. on any property, the auditor should confirm that the property belongs to the concern. However, if the premium is paid against key-man insurance policy, the auditor should evaluate the necessity of such insurance coverage.

v. Finally, the auditor should check the entries passed for the premium paid to ensure that proper distinction has been made between" fire and other natural hazards insurance with key-man insurance.