

B.N.M.V. COLLEGE, SAHUGARH, MADHEPURA

SUBJECT: AUDITING

DP- 1

STUDY MATERIAL

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UNIT-IV

VERIFICATION

Verification of Assets & Liabilities:

Verification is the process of substantiation involved in proving that a statement account or item is accurate and stated properly. It is an enquiry into the value, ownership & title, existence and possession, and presence of any charge on the assets as stated in the balance sheet.

Objects of Verification

1. Picture of true position.
2. Correct valuation.
3. Not exceeding the actual.
4. Not less than actual.
5. Existence and possession.
6. Ownership and title.
7. Without fraud or irregularity.
8. Arithmetical correctness.
9. Correct presentation in the balance sheet.

Position of Auditor as regards valuation of assets

An auditor is not a valuer or a technical expert. So he has to rely upon the valuation made by directors, partners, technical experts, surveyors, etc. However he must ensure that the valuation is fair and reasonable and based upon some accepted principles.

Verification of fixed assets

(i) Goodwill

- (a) Existence : Whether purchased or acquired. Self generated goodwill is not said to be in existence.
- (b) Records : Check the fixed asset register.
- (c) Right of Ownership : Check purchase agreement, purchase consideration and MOU between the parties.
- (d) Valuation and proper amortization as per AS-14, i.e. 5 years.
- (e) Proper presentation and disclosure.

(ii) Freehold Property :Which is in the name and title of owner.

- (a) Ownership:Check the sale deed.
- (b) Mortgage: Check the mortgage deed.
- (c) Change in asset due to sale, purchase or construction work should be enquired and duly recorded.
- (d) Revenue expenses regarding repairs and maintenance should be written off in P & L Account.
- (e) The auditor must enquire into the existence, valuation and presentation in balance sheet.

(iii) Leasehold Property : It has two owners and both have qualified rights over it. The following points to be considered :

- (a) Ownership : Lease deed should be examined.
- (b) Mortgage : Relevant deed should be perused.
- (c) Revenue expenses : To be charged to P & L.
- (d) Existence, valuation and presentation B/S to be checked.

(iv) Plant & Machinery

- (a) Existence : Physical verification to be conducted, additions and deductions to be checked.
- (b) Records : Check the fixed asset register.
- (c) Ownership : Invoice receipt and purchase order to be checked.
- (d) Revenue and capital expenditure should be properly accounted for.
- (e) Proper presentation and disclosure under the schedule of fixed assets.

(v) Furniture, fixture and fittings

The auditor has to verify the existence, records, changes ,ownership, valuation, presentation and disclosure in the balance sheet, along with depreciation.

(vi) **Motor Vehicles** The auditor has to verify the existence, fixed asset register, log books, invoices, registration book, incidental charges like insurance and road tax, depreciation, licences etc.

(vii) **Copyrights, patents, trademarks, loose tools** Check the existence ownership, valuation, presentation in balance sheet, respective registers, write off etc.

Valuation: According to AS-2, valuation is done on cost or NRV whichever is lower. Method is FIFO or weighted average and method is not changed, unless required. Presentation and disclosure in Balance Sheet.

Debtors, Loans and Advances

- List of debtors to be obtained.
- Correspondence with debtors.
- Inquiry into discount and bad debts, provision for bad debts.
- Classification of debtors according to age, security and reliability, bad and doubtful.

Securities:

Presentation and disclosure in Balance Sheet.

Verification of Liabilities

Steps for verification

1. Examination of records .
2. Direct confirmation procedure.
3. Examination of disclosure.
4. Analytical review procedure.
5. Obtaining Management Representations.

The nature, timing and extent of substantive procedures to be performed is a matter of professional judgement of the auditor which is based on the auditor's evaluation of the effectiveness of the related internal controls.
