INTERNAL CONTROL VS INTERNAL CHECK, VOUCHING, VERIFICATION AND VALUATION OF ASSETS AND LIABILITIES.

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INTERNAL CONTROL

MEANING OF INTERNAL CONTROL

- Internal control, as defined in accounting and auditing, is process for assuming of an or an organization objective in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations and policies.

OBJECT OF INTERNAL CONTROL

- Assets protection
- Accurate record
- Follow policies
- Prevention of error
- Prevention of fraud
- Best use of Resources
- Natural of test audit
- Reliable record
- Location of error and frauds
- Reduce work load

INTERNAL CHECK

MEANING OF INTERNAL CHECK

- Internal check is a valuable part of internal control.it is an arrangement of duties of the staff is such a manner that the work performed by one individuals is automatically checked by another person is run time course some definitive of internal check.

OBJECTS OF INTERNAL CHECK

- division of work .
- Determination of responsibilities .
- Early detection of errors and frauds .
- Reliability of books of accounts .
- prevention of errors and frauds .

VOUCHING

VOUCHING

- Vouching means testing the truth of the items appearing in the books of original entry. - J.R. Batliboi

Importance of vouching :

i. Knowledge of correctness of accounts .
ii. Relation of accounts with business .
iii. Completeness of accounts .
iv. Knowledge of account not related to business .

CLASSIFICATION OF ASSETS

DIVISION OF ASSETS:

- For the valuation of assets, all assets can be divided into five parts:
  - Fixed assets,
  - Floating assets,
  - Wasting assets,
  - Intangible assets,
  - Fictitious assets.

FIXED ASSETS:

- Are acquired for permanent use and continuous service rendered by them for a pretty long time.
- Neither meant for resale in the ordinary course of business nor consumed totally or partially in the business.
- Such assets are more or less of permanent character.
- Used for the purpose of earning profits
- Example: Land, Buildings, Plant, Machinery, etc.,

FLOATING OR CURRENT ASSETS:

- Assets which cannot be put to constant uses are floating or current assets.
- Meant for resale or process or produced for the purpose of sale and converting them into cash.
- Assets which are held for a short period are known as current assets.
- Are expected to be realized in cash or consumed during the normal operating cycle of the business.
- Example: Stock, Bills Receivable, Debtors, etc.,

WASTING ASSETS:

- Are of fixed nature and depleted gradually in the process of earning income.
- Assets exhaust by working,
- Process involves depletion of the capital employee.
- Does not appear any necessity to provide depreciation on wasting assets like mines, oil wells, etc.,

INTANGIBLE ASSETS:

- Do not have their form.
- Visible in their concrete form.
- Equally valuable for business like any other assets.
- Cannot see or touch them.
- Example: Goodwill, Patents, Copyrights, Trademarks, etc.,

FICTITIOUS ASSETS:

- Different by their nature itself.
- Such assets are not physically visible through of course money is spent in their case or are unrealisable assets.
- Example: Discount on issue of shares, Discount on issue of debentures, preliminary expenses, etc.,

VALUTION OF ASSET AND LIABILITIES

VALUTION OF ASSET AND LIABILITIES

- Valuation of assets & liabilities means the examination of the accuracy and Propriety of the valuation of those assets and liabilities, which are shown in the balance sheet of any concern at the end of the financial year.
- The valuation is done to :-
  - ✓ know the exact financial position
  - ✓ know correct profit & loss of the business
  - ✓ know about the secret reserve
  - ✓ Ensure the security of the investment

DIFFERENT TYPES OF PRICE OR VALUES

1. Cost price
2. Market price
3. Book value
4. Going concern value
5. Replacement cost
6. Scrap value
7. Realizable value

VALUATION OF ASSETS AND LIABILITIES

- Valuation of assets :
  - Fixed assets
  - Tangible assets
  - Intangible asset
  - Floating asset
- Valuation of liabilities :
  - Capital
  - Reserve and surplus
  - Creditors
  - Bills payable

AUDITOR AND VALUATION

- Valuation is not the work of auditor but it is his duty to see that valuation is done according to basic principle & basis of valuation of assets. Thus it can be said that the valuation itself is not the function of auditor but he is closely related with the valuation because it is his duty to certify that the valuation is correct or not.
- Thus an auditor is not a valuer but still following are his duties with regard to valuation.
  1. To check the fairness of valuation.
  2. Compliance of rules & regulation.
  3. Compliance of article of association (AOA)
  4. Taking assistance of available voucher

VERIFICATION OF ASSETS

VERIFICATION

✓ Verification of assets is process by which the auditors examine the accuracy of the assets appearing in the balance sheet.

➢ **Way of verification of assets :**

i. Comparing the ledger accounts with the balance sheet.
ii. Verifying the existence of the assets on the date of the balance sheet.
iii. Satisfying that they are free from any charge or mortgage.
iv. Verifying their proper value.
v. Assets were acquired for the business not for any individuals.

VERIFICATION OF VARIOUS ASSETS

1. FREEHOLD LAND
2. LEASEHOLD PROPERTY
3. PLANT AND MACHINERY
4. FURNITURE AND FITINGS
5. MOTOR LORRIES
6. TRADE MARKS
7. GOODWILL

VERIFICATION OF LIABILITIES

VERIFICATION OF LIABILITIES

- Verification of liabilities is as important as verification of assets.
- Auditor must examine that liabilities are shown in balance sheet in proper way.

AN AUDITOR'S MUST VERIFICATION'S

CONTINUE…….

- Bank Overdraft :- Auditor should verify the bank overdraft by vouching the balance of bank overdraft and interest payable.
- Creditors for capital expenditure :- The auditor should carefully examine the correspondence with regards to acquiring assets for proper verification of creditor.
- Creditors :-
  - ✓ Creditors should obtain the list of creditors from some responsible officer.
  - ✓ The list of creditors should be examined from invoice register.
  - ✓ Creditor should correspond with concerned creditors.

CONTINUE…….

- Debentures :-
  - ✓ The auditor must study the memorandum and articles of association of company.
  - ✓ Auditor must examine the copy of Debenture trust deed.
  - ✓ Auditor should also examine the Register of Mortgages and charges.

- Bills Payable :-
  - ✓ The auditor should obtain a certified list of bills Payables from client and verify from books and account.
  - ✓ All bills payable should be clearly stated in balance sheet.
  - ✓ Auditor should specially see that the bills paid during the date of balance sheet.

CONTINUE…….

- Loans :-
  - ✓ The auditor should obtain a list of creditors for loan from the clients with details.
  - ✓ The receipts obtained for payment should be vouched with entries in cash book.
  - ✓ The auditor must ensure that all loans have been clearly stated on liabilities side balance sheet.
- Expenses :-
  - ✓ All outstanding expenses should be examined by referring Nominal account, Demand notes, Bills and Receipts.
  - ✓ The outstanding expenses of current year should be compared with Last year's expenses.
  - ✓ A certificate from a responsible officer with regard to all types of liabilities must be obtained.

CONTINUE.......

- Contingent Liabilities :-
  - ✓The auditor should obtain a list of contingent liabilities from client and examine reason for arising of such liabilities.
  - ✓The provision of liabilities sufficiency should be examined.
  - ✓Auditor should ensure that all contingent liabilities are shown as footnotes in Balance sheet.

DIFFERENCE BETWEEN VERIFICATION AND VALUATION OF ASSETS

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1. Verification means determining the accuracy of assets and liabilities shown in the balance sheet and valuation means testing the accuracy of the assets and liabilities shown in the balance sheet and valuation means testing the accuracy of the assets and liabilities
2. Verification scope is wide & valuation scope is limited.
3. Verification is expected by auditor & valuation executed by the client's staff .
4. Verification nature is objective & valuation is subjective

CONTINUE…….

- ✓ Valuation and verification of assets are complementary to each other .Until and unless the valuation is assets is made , verification is impossible even though they have some differences which are as follows :

1. Verification is a final work but valuation is needed to the verification.
2. Verification is the work of auditor but valuation is the work of concerned authority of or board.
3. Valuation checks the amount shown in accounts but verification checks the items shown in the balance sheet.
4. Valuation is made throughout the year but verification is made at the end of the year.
5. Valuation is based on evidence but verification is based on individual check.

Thank you!