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Level: B. Com/Associate Degree

## Assignment no 2

### Q.1 Define Verification, Importance in Audit, and Its Basics.

#### Verification:

**Verification** in the context of auditing refers to the process of examining and substantiating the accuracy, authenticity, and validity of the financial information presented in the organization's accounting records. It involves obtaining sufficient and appropriate evidence to support the amounts and disclosures reported in the financial statements.

#### Importance of Verification in Audit:

Verification is crucial in an audit for the following reasons:

1. **Ensuring Accuracy:** Verification helps confirm that the financial information in the books of accounts is accurate and reliable.
2. **Detecting Errors and Fraud:** It helps auditors identify any errors, misstatements, or potential fraud in the financial records.
3. **Enhancing Credibility:** Verification adds credibility to the financial statements, providing assurance to stakeholders and investors.
4. **Compliance:** It ensures compliance with accounting principles, standards, and relevant laws and regulations.
5. **Risk Assessment:** Verification assists auditors in assessing the risk of material misstatement in the financial statements.

#### Basics of Verification in Audit:

The basics of verification in an audit include:

1. **Inspection:** Auditors inspect physical assets, documents, contracts, and other records to verify their existence and authenticity.
2. **Confirmation:** Auditors may seek external confirmation from third parties, such as banks or customers, to validate the accuracy of financial information.

3. **Reconciliation:** Auditors reconcile financial records with supporting documents to ensure consistency and accuracy.
4. **Analytical Procedures:** Auditors perform analytical procedures to assess the reasonableness and trends in financial data.
5. **Vouching:** Vouching involves tracing transactions from the financial statements back to original source documents to validate their accuracy and authenticity.

## **Q. 2 Detailed Note on Verification of Share Capital and Share Transfers Audit.**

### **Verification of Share Capital:**

In the verification of share capital, auditors review and validate the details of the company's share capital structure, ensuring compliance with the Companies Act and other relevant regulations. The verification process involves the following steps:

1. **Examination of Share Issuance Documents:** Auditors inspect the company's share issuance documents, including prospectuses and share allotment letters, to ensure compliance with legal requirements.
2. **Confirmation of Paid-up Capital:** Auditors confirm that the shareholders have paid the required amount of share capital as per the terms of the share issuance.
3. **Verification of Share Register:** The auditors verify the entries in the share register, ensuring accuracy in the recording of share issuances, transfers, and cancellations.
4. **Inspection of Share Certificates:** Auditors physically inspect the share certificates to ascertain their authenticity and proper execution.
5. **Review of Share Transfer Transactions:** The audit includes a review of share transfer transactions to confirm the transfer of shares between shareholders.

6. **Compliance with Share Transfer Rules:** Auditors ensure that share transfers comply with the rules and restrictions set forth in the Articles of Association and applicable laws.

### **Verification of Share Transfers:**

The verification of share transfers involves reviewing the process of transferring shares between existing shareholders or from shareholders to new investors. The audit procedures include:

1. **Review of Share Transfer Documents:** Auditors examine the share transfer deeds and related documents to ensure their validity and compliance with legal requirements.
2. **Confirmation of Transferor and Transferee:** Auditors verify the identities of both the transferor and transferee to prevent any fraudulent transfers.
3. **Approval and Authorization:** The auditors confirm that the share transfer transactions were duly approved and authorized by the company's board or relevant authorities.
4. **Recording of Share Transfers:** Auditors check the proper recording of share transfers in the share register and other relevant records.
5. **Verification of Transfer Stamps:** If applicable, auditors verify the affixation of transfer stamps on share transfer documents as required by the relevant Stamp Act.
6. **Compliance with Legal Requirements:** The audit ensures that the share transfer process adheres to the provisions of the Companies Act and other applicable laws.

In conclusion, the verification of share capital and share transfers is essential to ensure accuracy, compliance, and transparency in the company's shareholding structure and transactions.

## Q. 3 Verification of Fixed Assets, Current Assets, and Stock.

### Verification of Fixed Assets:

The verification of fixed assets involves confirming the existence, ownership, and valuation of tangible assets owned by the company. The audit procedures include:

1. **Physical Inspection:** Auditors physically inspect fixed assets, such as buildings, machinery, and equipment, to confirm their existence and condition.
2. **Title Deeds and Ownership:** Auditors review title deeds, lease agreements, and other documents to verify ownership and rights over fixed assets.
3. **Valuation:** The auditors assess the valuation of fixed assets to ensure compliance with accounting standards and proper depreciation methods.
4. **Maintenance Records:** Auditors review maintenance records and repair expenses to assess the accuracy of fixed asset values.
5. **Disposal and Retirements:** The audit includes a review of any disposals or retirements of fixed assets, ensuring proper accounting treatment.

### Verification of Current Assets:

Verification of current assets involves assessing the accuracy and existence of short-term assets that are expected to be converted into cash within a year. The audit procedures include:

1. **Bank Balances:** Auditors confirm the bank balances with the relevant financial institutions to verify the accuracy of cash and bank balances.
2. **Accounts Receivable:** The auditors review accounts receivable records and confirm outstanding balances with customers to validate their existence.
3. **Inventory:** Physical inspection of inventory is conducted to confirm its existence and proper valuation.
4. **Prepaid Expenses:** Auditors verify prepaid expenses and ensure their proper accounting treatment.

5. **Short-term Investments:** The verification of short-term investments includes confirming the ownership and valuation of investments held by the company.

### **Verification of Stock:**

Verification of stock involves confirming the accuracy and valuation of goods held for sale or raw materials used in the production process. The audit procedures include:

1. **Physical Inventory Count:** Auditors conduct a physical count of stock to verify its existence and accuracy.
2. **Valuation:** The auditors assess the valuation of stock to ensure compliance with accounting standards and proper costing methods.
3. **Stock Movement:** Auditors review stock movement records to confirm the accuracy of stock balances.
4. **Obsolete and Damaged Stock:** The audit includes a review of obsolete and damaged stock to assess their proper valuation and potential write-offs.
5. **Consignment Stock:** If applicable, auditors verify consignment stock and ensure proper recording and valuation.

In conclusion, the verification of fixed assets, current assets, and stock is essential to ensure accurate financial reporting and assess the company's asset management practices.

## **Q. 4 Powers, Rights, Duties, and Status of Company Auditor.**

### **Powers of Company Auditor:**

1. **Access to Books and Records:** The auditor has the power to access and examine the company's books, records, and documents relevant to the audit.
2. **Verification and Inspection:** The auditor can verify the accuracy and validity of transactions by inspecting relevant documents and conducting physical inspections.
3. **Obtaining Information:** The auditor has the authority to seek information and explanations from company personnel necessary for the audit.

4. **Access to Bank Accounts:** The auditor can access the company's bank accounts and financial statements.
5. **Calling General Meetings:** The auditor can call for a general meeting if the company fails to hold its Annual General Meeting (AGM).

### **Rights of Company Auditor:**

1. **Right to Remuneration:** The auditor has the right to receive remuneration for conducting the audit as agreed with the company.
2. **Right to Receive Notices:** The auditor should receive notices of board meetings, general meetings, and other relevant events.
3. **Right to Access to Directors and Officers:** The auditor can communicate directly with the company's directors and officers to obtain necessary information.

### **Duties of Company Auditor:**

1. **Independence and Objectivity:** The auditor must maintain independence and objectivity throughout the audit process.
2. **Professional Competence:** The auditor should possess the necessary professional competence and skills to conduct the audit effectively.
3. **Compliance with Auditing Standards:** The auditor must adhere to the relevant auditing standards and principles.
4. **Audit Opinion:** The auditor is responsible for providing an audit opinion on the financial statements based on the findings of the audit.

### **Status of Company Auditor:**

The company auditor holds a position of trust and responsibility. They are appointed by the shareholders to provide an independent and unbiased assessment of the company's financial statements and internal controls. The auditor is not an employee of the company but an external professional with specialized knowledge in auditing and accounting.

### **Q. 5 Define Vouching and Describe Its Importance, Procedure, and Techniques.**

## **Vouching:**

**Vouching** is the process of verifying the authenticity and accuracy of transactions recorded in the books of accounts by examining supporting documents and evidence. It involves tracing individual transactions from the financial statements back to original source documents to ensure that they are properly authorized, valid, and recorded accurately.

## **Importance of Vouching:**

Vouching is essential in auditing for the following reasons:

1. **Ensuring Accuracy:** Vouching helps confirm that the transactions recorded in the books of accounts are accurate and valid.
2. **Detection of Errors:** It helps auditors identify errors, omissions, and irregularities in the recording of transactions.
3. **Preventing Fraud:** Vouching can detect fraudulent transactions or misappropriation of funds.
4. **Compliance:** Vouching ensures compliance with accounting principles, standards, and internal control procedures.

## **Procedure of Vouching:**

The procedure of vouching includes the following steps:

1. **Selection of Transactions:** The auditor selects a sample of transactions from the financial statements for vouching.
2. **Examination of Supporting Documents:** The auditor examines the original source documents, such as invoices, receipts, contracts, and vouchers, related to the selected transactions.
3. **Tracing Backwards:** The auditor traces the selected transactions back to the original source documents to verify their authenticity and accuracy.
4. **Verification of Authorization:** The auditor verifies that each transaction is properly authorized and supported by relevant approvals.
5. **Recording Observations:** The auditor records observations and discrepancies found during the vouching process.

## **Techniques of Vouching:**



1. **Inspection:** Auditors physically inspect source documents to verify their existence and accuracy.
2. **Examination of Documents:** Auditors examine invoices, receipts, contracts, and other documents to ensure their authenticity and validity.
3. **Confirmation:** Auditors seek external confirmation from third parties, such as banks and suppliers, to validate the accuracy of transactions.
4. **Tracing:** Auditors trace transactions from the financial statements back to original source documents to verify their recording.
5. **Cut-off Testing:** Auditors check the cut-off of transactions to ensure they are recorded in the correct accounting period.

In conclusion, vouching is a critical audit procedure that helps ensure the accuracy, validity, and compliance of transactions recorded in the books of accounts.