Unit 9: Verification and Valuation of Assets

Learning Objective:

After studying this module, students will be able to:

- Describe Meaning and Definition of Verification and Valuation of Assets
- Discuss Audit Committee
- Understand Role of Audit Committee
- Explain Audit Reports

9.1 Meaning and Definition

Verification's literary definition is "proving the truth" or "confirmation." Verification is a process that is typically done at the end of the year to validate that items were owned, valued, and present at the time of the balance sheet. The auditor makes sure that the assets are free of any debts or liens with the aid of verification. The following are some key definitions of verification:

"Asset verification entails an examination into the value, ownership and title, existence and possession, and the presence of any charge on the assets," write Spicer and Pegler.

"The verification of assets is a process by which the auditor substantiates the accuracy of the right-hand side of the balance sheet, and must be seen as having three distinct objectives," writes Lancaster.

(i) Verification of the existence of assets.

(ii) The valuation of assets, and

(iii) Authority for their acquisition.

9.2 Distinction

Definition of Verification

Verification entails demonstrating the veracity of supporting documentation. The auditor verifies that the items are correctly classified as assets and liabilities in the entries made to the company's balance sheet.

Verification, in essence, satisfies the auditor with the veracity of the assets and liabilities.

Also, it is desirable to divide the assets into two groups while verifying them:

- The assets owned as of the date of the prior Balance Statement;
- The assets acquired during the year under review.

It is important to attest to their purchase in the first scenario. In this regard, cost and authorization-related issues are verified.

Definition of Valuation

Asset valuation is the process of determining if the value of assets as they appear on the firm's balance sheet at the end of the fiscal year is accurate. It makes it easier to verify the company's accurate financial situation. It includes:

1. Gathering all relevant valuation-related data.

2. Examining each and every figure

3. Verifying that the valuation complies with GAAP guidelines.

4. Maintaining consistency in the techniques used each year to value assets.

5. Receiving feedback on the valuation's accuracy.

The auditor must also guarantee the accuracy of the valuation and calculation bases. He must verify the establishment of contingency plans. Also, the main goal of asset valuation is to demonstrate that the Balance Sheet represents a genuine and fair perspective of the business. He must also ensure that there have been no manipulations of the finances to artificially increase the company's profitability.

BASIS FOR COMPARISON	VERIFICATION	VALUATION
Meaning	The verification procedure is where the auditor determines if the assets listed on the balance sheet actually exist in the business's name. Additionally, it verifies whether they are authentic or not and whether they are charged.	Examining the actual value of the business's assets and liabilities as shown on the balance sheet is the process of valuation.
Time	It occurs at the conclusion of the fiscal year.	That occurs for all of the year's transactions.
Objective	To verify assets' existence, ownership, and possession.	To determine the actual GAAP values of assets.
Who performs the work?	Auditor	Management

Advice	The auditor doesn't look for outside assistance for verification.	The auditor may consult valuers for valuation assistance.
Basis	Facts and Information	Estimations
Documentary Evidence	Title Deed, Receipt for payment etc.	Certificate offered by owners, directors or experts.
Performance of Work	Work is done by an auditor or members of his crew.	The client's staff completes the work, but an auditor or a member of his staff tests it.
Guarantee by auditor	The verification of assets and liabilities is guaranteed by the auditor.	The correctness of the asset and liabilities valuations is not guaranteed by the auditor.
Nature	Objective	Subjective
Sequence	Second	First

9.3 Verification and Valuation of Various Assets and Liabilities

It is just as crucial to verify liabilities as it is to verify assets. Only when the obligations and assets are accurately evaluated and confirmed will the balance sheet give a true and fair picture of the state of the business concerns.

Verifying liabilities aims to determine whether all of the company's liabilities are accurately disclosed, valued, categorised, and displayed in the balance sheet. These should be accurately stated in the Balance Statement, according to the auditor. He should ask the accountable official to certify that the liabilities are correct.

In the case of Westminster Road Construction and Engineering Co. Ltd., this decision was made.

In essence, the auditor must check and confirm that,

i. The liability side of the balance sheet contains a complete list of all obligations.

ii. They all have something to do with the company itself.

iii. The appropriate official has approved them all and they are all true.

iv. Their real numbers are displayed in the balance sheet.

The verification and value of various liabilities will now be covered.

1. Verification and Valuation of Trade Creditors

1. The accuracy of purchases determines the accuracy of liabilities. In order to confirm that purchases were made correctly, the auditor should compare the percentage of gross earnings to be purchased with that of the prior years.

2. The auditor should get a Schedule of Creditors and cross-check it with the ledger account balances and the statements of accounts that the Creditors have provided.

3. He should use invoices, credit notes, and other documents to review the Purchases Book and Purchases Returns Book. He should also review the Ledger postings.

4. He should verify that the things he purchased have truly been received by looking at the Goods Inward Book.

5. Especially at the end of the year, he should ensure that all purchases made during the year have been accounted for.

6. He should check to verify if the discounts given to creditors throughout the time period support the credit amounts.

7. In the event of hire purchases, the auditor must ensure that the terms of the hire purchase agreement are correctly followed.

8. To make sure the employees have passed any fake entries in this regard, he should review the entries made at the beginning and the end of the year.

9. If a debt is discovered to be unpaid for an extended period of time, an investigation should be conducted because it's possible that money was taken without the creditor's knowledge.

2. Verification and Valuation of Bills Payable

The auditor should do the following verification steps in cases of invoices payable:

1. The schedule of payable bills should be obtained by the auditor, whose totals should be compared to those of the payable bills account and payable book.

2. The invoices paid subsequent to the Balance Sheet date should be compared to the Cash Book entries made.

3. With his client's consent, the auditor should immediately ask the drawers for affirmative statements.

4. He should pay close attention to whether the bills that were paid between the time the balance sheet was created and the audit date were properly recorded in the records.

3. Verification and Valuation of Loans

1. If there are any loans, the auditor should confirm their existence. He should review the communications, contracts, and Directors' Minute Book in the case of a firm.

2. The auditor should consult the loan agreement to determine the conditions of the loan, the amount of the loan, the length of the loan, the nature of the loan, etc.

3. With his client's consent, he should immediately verify the outstanding loan sums from the company's creditors.

4. A contract with the bank and a certificate to that effect should be sought and carefully inspected in cases where loans or overdrafts were received from a bank.

5. The auditor should check to verify if the owed interest has been paid. He should check to see if the interest has been expressly reflected as a liability in the balance sheet if it is due but unpaid as of the date of the balance sheet.

6. If a joint stock company is involved, the auditor needs to look at the business's borrowing capacity. Also, he should check the Register of Charges to confirm that any charges that have been created have been registered with the Registrar.

7. It should be noted that loan interest has been paid in full. If not, he should check the books of accounts to determine if the outstanding sum is listed as underpaid.

4. Verification and Valuation of Outstanding Liabilities for Expenses

1. If there are any unpaid liabilities, the auditor needs to have a letter from a corporate official in charge attesting that all costs that become due have been taken into consideration.

2. He should review the receipts and other vouchers to see if the necessary funding has been made for all of the unpaid expenses.

3. He should investigate any discrepancies he finds between the expenses shown as unpaid for the current year and those from the previous year.

5. Verification and Valuation of Capital

Although capital is not a liability for an entity, the auditor must nonetheless confirm it in order to assess the authenticity and accuracy of the balance sheet. The Partnership Deed, Cashbook, and Passbook should all be used by the auditor to confirm capital in the case of a company. He needs to confirm that it was accurately entered into the books of accounts. Verification of capital in the context of a firm can be divided into two categories:

1. First Audit

To determine the maximum capital that the company is permitted to raise during the first audit, the auditor should look at the Memorandum of Association. He ought to review the Articles of Association as well.

The auditor should look through the Board of Directors' Cashbook, Passbook, and Minute Book to determine how many shares of each class were issued, how much was paid for each share, and how much was still owed to the shareholders in respect of calls, among other things.

The contract between the corporation and the vendors should be compared to the shares allocated to the vendors.

2. Subsequent Audit

If the corporation hasn't made any changes or additions through new issues or other means, the share capital should remain the same in succeeding years. If he notices any changes, he must ensure that the pertinent clauses of Sections 94, 95, and 100 to 105 of the Companies Act have been properly followed.

6. Verification and Valuation of Reserves and Fund

Funds and reserves are appropriated from profits. The quantity of reserves and money that need to be established is decided by the board of directors of a firm while taking into account the specifics of the industry. On the liabilities side of the balance sheet, the reserve and funds must be disclosed with footnotes.

7. Verification and Valuation of Debentures

1. In the case of debentures, the auditor should confirm the business's articles of association and memorandum of association to determine whether the company has the authority to issue debentures. He should ascertain the borrowing cap and confirm that the business has not gone over it.

2. He should check the Debenture Trust Deed to confirm the quantity of securities offered and debentures issued. He can ask the holders of the debentures for a certificate if necessary to confirm the quantity of debentures issued.

3. He should find out what plans have been made for debenture redemption. He should check the Articles of Organization to see if a debenture redemption fund has been established.

4. The auditor shall ensure that the debenture premium and discount on issue are properly handled in the books of account if the debentures are issued at premium or at discount.

5. He should make sure that the debentures indicated in the balance sheet and the debentures recorded in the books of account are consistent by checking the Register of Charges and Register of Debenture Holders.

8. Verification and Valuation of Income Received in Advance

There are times when the company obtains money in advance that will actually be paid out the following year. It is handled as a liability and belongs on the balance sheet's liabilities side. If the items of income received in advance are documented in books, the auditor should confirm this. A Certified Schedule of Income Received in Advance should be obtained by the auditor, who should then confirm it. He needs to make sure that all of the income collected in advance is included in the balance sheet's liabilities.

9. Verification and Valuation of Employees Deposits

It is customary in commercial and industrial settings to demand security deposits from personnel who work with cash or stores. It serves as a defense against any potential theft or misappropriation on the part of such employees. Sometimes, employees will endorse trustee securities in favor of the employers rather than paying a cash security deposit. In these situations, the auditor should check to verify if the security is made up of cash or securities that are placed separately in the bank. Under the liabilities section of the balance sheet, he should check to verify if they are clearly displayed. By comparing the Certified Schedule he obtained from the client to the quantity of deposits, he should confirm them.

10. Verification and Valuation of Taxation Liability

Taxation has grown to be a significant responsibility in today's world, therefore businesses must account for it fully in their financial statements. The auditor should check to establish if the provision made covers the projected liabilities. Typically, auditors are asked to provide advice regarding the sufficiency of the liability, and in such a situation, they serve as a tax adviser.

9.4 Audit Committee

An organization's financial reporting is handled by an audit committee in terms of the internal controls in place to guarantee accuracy. This committee also keeps an eye on a company's entire operations to make sure they adhere to industry standards, regulations, and guidelines. This committee, which is a part of the corporate structure, makes sure that the corporate actors follow the law and ethical standards. Publicly traded corporations in the US are required to maintain an auditing organization. They must be admitted to the stock exchange in order to trade.
The corporate units and the audit committee collaborate. Investors must make sure the businesses they fund are operating ethically and in accordance with accepted industry norms. As a result, the committee's existence relieves them of the stress that comes with worries about business ethics, compliance, and financial reporting.

This committee, whose presence promotes investor confidence in their investments, is made up of the board of directors' members. They feel confident when they are aware that the businesses operate morally and have strong internal procedures in place to catch irregularities.

9.5 Role of Audit Committee

The committee's responsibility for bettering the operation and management of the investor protection system rests with its members. The committee members can check the method of financial reporting or determine whether committee members are free from outside influence. The CFO is responsible for preparing the company's financial reports, which are then provided to investors and the SEC. Under the CFO's direction, the quarterly, annual, and monthly reports are all created.

Each and every committee member works independently and makes use of all of their subject-matter knowledge. In order to spot frauds or threats, they monitor the financial reporting system and examine the internal controls. The amount of information is enormous. As a result, the committee places extra emphasis on the financial statements' riskier sections to avoid giving investors cause for concern.

An organization employs an outside auditor to look critically at the reports and look for errors. They render the final judgment. When defending the company's financial status to investors, they take care to dispel all questions. Yet, these auditors follow the guidelines set forth by the Public Company Accounting Oversight Board (PCAOB).

The members work together to maintain the system's integrity for financial reporting. Additionally, they ensure the application of internal controls and compliance. The committee members also investigate grievances and complaints that have been filed.

9.6 Audit Reports

An impartial auditor drafts an audit report. He checks to see that the books of accounts were properly created in all material areas and that there are no material misstatements, whether from fraud or mistake. An audit, however, is not a probe of alleged wrongdoing in the organization. The purpose of auditing is to provide a statement of the company's financial condition.

To reassure the company's stakeholders that the financial statements accurately reflect all of the transactions that were recorded in the accounting system throughout the year, an audit is carried out. In order to verify that the business is adhering to a good corporate governance framework, auditors are expected to possess extensive understanding of accounting, finance, tax, and corporate laws.

9.7 Summary

To ensure that assets and liabilities are accurate, assets and liabilities are verified and valued. The Auditor's responsibility is to verify the accuracy of the assets and liabilities. It verifies whether the assets and liabilities listed on the balance sheet have the proper values or not. If the auditor encounters a technical issue, he can seek assistance from a technical expert who can assist him in resolving that issue.

As opposed to determining the value of assets and liabilities, the auditor determines the accuracy of assets and liabilities in the event of verification. Verification of assets and liabilities as well as the valuation of assets and liabilities individually must be understood in order to comprehend the verification of assets and liabilities in.

A company's board of directors' audit committee is a sub-group in charge of monitoring the financial reporting and disclosure procedure. The audit committee must be knowledgeable with the organization's procedures and internal controls if it is to be effective.

9.8 Reference

- Financial Analysis For Beginners by Dr. N. Sivasankaran
- Audit of Financial Statements Book by CA Pranav Jain.
- Financial Reporting & Audit - Requirements Under The Companies Act, 2013 by CA Deepa Agarwal, Bloomsbury India