DEPARTMENT OF COMMERCE
D.B. COLLEGE, JAYNAGAR
LALIT NARAYANA MITHILA UNIVERSITY, DARBHANGA (BIHAR)

BY: DR. SHAILESH KR. SINGH
ASSISTANT PROFESSOR (GUEST)

Ref. No.: **…………….** **Date:** 23 October, 2020

CORE CONCEPT OF

PRINCIPLE OF AUDITING

Valuation and Verification of Assets from an Auditor's Point Of View

It is an important duty of an auditor to see that assets and liabilities are reasonably valued. The accuracy of the Balance Sheet and Profit and Loss Account entirely depends upon the correct valuation of assets and liabilities. Balance Sheet will not disclose the true financial state of affairs if the assets are in appropriately valued.

Though valuation is done by the responsible officers of the concern, auditor must use his common sense in finding out if the assets have been valued on the basis of some scientific principles. An auditor cannot be taken to be an expert in valuation. In his work, he can rely on the valuations put by the responsible officers of the business or to the certificates of component persons such as valuers, surveyors etc. He would do well to disclose the basis of valuation of assets in the Balance Sheet. He is more concerned in checking the values of the assets to see that they represents their real worth to the business as a going concern on the date of Balance Sheet.

He must impress upon the business that assets should be valued on some reasonable basis and scientific principles. According to London and General Bank case and Kingston Cotton Mills Co. Case, though it is no part of an auditor's duty to value assets and liabilities, yet he must exercise reasonable skill and care in scrutinising the basis of valuation. He should test correctness of the values as put by the officers of the business. In any case, the auditor cannot guarantee the accuracy of the valuation.

Since the coming into force of the new Company Ordinance, the auditor is required to see that the Balance Sheet represents the financial state of affairs of the company truly and fairly. Auditor should therefore, in no case permit under-valuation or over-valuation of assets. He should not allow the creation of secret reserves, final accounts prepared by the company's accountants must not be certified by him as correct unless they are fair to all the parties interested in the affairs of the company. Auditor must be careful to see that one party has not been given preference over the other.

All the objects discussed above cannot be achieved until the assets are shown in the books at their proper and real values.

In spite of the fact that auditor is not an expert valuer, he must be cautious and painstaking in verifying the values of the assets at which they are shown in the books. All the relevant facts and evidences may be taken into consideration in ascertaining the fair value of the assets.

Verification

Verification of the existence of an asset is very much different from the vouching of the expenditure incurred in the purchase of an asset. Vouching of an entry in the books goes to prove that the asset ought to exist. It is the duty of an auditor to satisfy himself that the asset actually does exist.

Verification entails the inspection of such evidence as well satisfy the auditor that such assets are actually in the possession of his clients on the date of Balance Sheet. False assets should not be created and real assets should not be suppressed. The auditor must also guard against substitution of assets, an auditor would not be able to detect misappropriations and may be held liable for negligence in the performance of his duties as was decided in the case of “The London Oil Storage Co. Vs. Sean Husluch & Co.”

To sum sup, the verification of assets involves the following points:

1) To compare the ledge accounts with the Balance Sheet;

2) To verify the physical existence of assets as on the date of Balance Sheet and to see that these assets are acquired by proper authority and for business purposes;

3) To satisfy that the assets are free from any charge or mortgage or encumberence and that the business under audit is the real owner thereof and that they are under proper custody;

4) To verify that it is properly valued and correctly stated in the Balance Sheet, to ascertain their relation to the corresponding items at the end of the previous year and where necessary, earlier year;

5) The suitability of the description used;

6) Adequate disclosure of information.

Fixed Assets are those of a permanent nature, by means of which are held for the purpose of earning income, and not for the purpose of sale.

Current assets are these in which the business deals, and which are acquired for the purpose of sale and the subsequent stages of their conversion into cash.

Although, it is not possible for an auditor to inspect each and very asset, e.g. all the items of stock, yet he remains liable for all undetected errors and frauds.