

Diploma in Financial Management & Accountability

- A joint initiative of TISS & FMSF

Course Material



Audit

Paper - VII

Module - IV

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<p style="text-align: center;">UNIT- 6</p> <p style="text-align: center;">VOUCHING OF RECEIPTS AND PAYMENTS</p>

6.1. INTRODUCTION

The act of examining vouchers is referred to as vouching. It is the practice followed in an audit, with the objective of establishing the authenticity of the transactions recorded in the primary books of account. It essentially consists of verifying a transaction recorded in the books of account with the relevant documentary evidence and the authority on the basis of which the entry has been made; also confirming that the amount mentioned in the voucher has been posted to an appropriate account which would disclose the nature of the transaction on its inclusion in the final statements of account. On these considerations, the essential points to be borne in mind while examining a voucher are:

- (i) That the date of voucher falls within the accounting period;
- (ii) That the voucher is made out in the client's name;
- (iii) That the voucher is duly authorized;
- (iv) that the voucher comprised all the relevant documents which could be expected to have been received or brought into existence on the transactions having been entered into, i.e., the voucher is complete in all respects; and
- (v) That the account in which the amount of the voucher is adjusted is the one that would clearly disclose the character of the receipts or payments posted thereto on its inclusion in the final accounts.

After the examination is over, each voucher should be either impressed with a rubber stamp or initialed so that it may not be presented again in support of another entry.

6.2. AUDIT OF VARIOUS EXPENSES ITEMS

6.2.1. Payment by Cheques

In dealing with payment by cheques it should be ensured that:

- a) the counterfoils of cheques issued bear the initials of the drawing officer.
- b) the amounts as shown in the counterfoils of cheques issued agree with the entries on the payment side of the Cash Book ;
- c) the difference between the amount of cheques issued as recorded on the payment side of the Cash Book and the amount of cheques shown as paid in the Bank Statement/Pass Book, represents the amount of cheques remaining un-cashed at the end of each month ;
- d) all cancelled cheques are stamped "cancelled" under initials of the signing officer;
- e) the instructions regarding cheques not cashed within six months are properly observed ;
- f) the cheque books are kept in the personal custody of the signing officer and that each of them bears an endorsement that it contains the correct number of forms over the signature of the officer.

6.2.2. Purchase of goods

Cash purchases should be verified by reference to cash memos or receipted invoices by suppliers. Payments made against credit purchases should be vouched with the receipts issued by the suppliers and the credit to their accounts on the basis of invoices entered in the Purchases Day book. There

must be also evidence of the goods having been received through an entry in the Goods Inward Books or stock ledger.

6.2.3. Payment for acquisition of assets

The purchase of an asset must be duly supported by the receipt for the amount paid. In case of an immovable property the auditor must also inspect the title deeds. The title of an immovable property passes only on registration. It is therefore essential for an auditor to see that property has been registered in purchaser's name as required by the Transfer of Property Act, 1882 and also that the title of the transfer to sell property has been verified by a solicitor or an advocate.

In the case of movable property requiring registration of ownership, e.g., a car , it must be verified that such registration has been made in favour of the purchaser. It is necessary for the auditor to satisfy himself generally as regards existence, value and title of the assets acquired. It must also be verified that the assets were purchased only by a person who had the authority to do so.

6.2.4. Traveling expenses

Traveling expenses are normally payable to staff according to rules approved by the organization. Where no rules exist, the auditor should recommend that these be framed for controlling the expenditure. In the absence of T.A. Rules, the expenditure should be vouched on the basis of actual expenditure incurred. A voucher should be demanded for all items of expenses incurred, except those which are capable of independent verification.

6.2.5. Project expenses against sanctioned grant

- It is the duty of the auditor to see that the expenditure in a project oriented social organization is governed inter alia by the following essential general conditions:

- that there should be provision of funds authorized by the sanctioning authority fixing the limits within which expenditure can be incurred;
 - that the expenditure incurred should conform to the conditions attached to the source of finance, if any, and should also be in accordance with the financial rules and regulations framed by sanctioning authority.
- The expenditure should be incurred with due regard to broad and general principles of financial propriety. Any cases involving breach of these principles and thus resulting in improper expenditure or waste should be brought to notice in the same manner as cases of irregular or un-authorized expenditure. Irregularity in expenditure should be deemed to include expenditure incurred on an object without achieving the result expected from it. In other words, it should be ascertained that the expenditure has been incurred efficiently. Since the very purpose of expenditure by social organizations is welfare and development. 'Efficiency Audit' of expenditure with a view to ascertain whether the various schemes are being run economically and are actually yielding the results expected of them, has assumed great importance.
- Audit against provision of funds should be directed primarily for ascertaining that the money expended has been applied to the purpose or purposes for which they were intended to provide and that the amount of expenditure against each item of the estimate does not exceed the amount included therein.
- Auditor has to satisfy himself that the expenditure which is being audited falls within the scope of a sanctioned Grant and that it is within the amount of the Grant. Expenditure in excess of the amount of a Grant as well as expenditure not falling within the scope or intention of any Grant should be treated as unauthorized expenditure unless

regularized.

6.3. AUDIT OF VARIOUS INCOME ITEMS

- a) **Contribution and Grants for projects and programmes,** Check agreements with donors and grants letters to ensure that funds received have been accounted for. Check that all foreign contribution receipts are deposited in the foreign contribution bank account as notified under the Foreign Contribution (Regulation) Act, 1976.
- b) **Receipts from Fund raising programmes,** verify in detail the internal control system and ascertain who are the persons responsible for collection of funds and mode of receipt. Ensure that collections are counted and deposited preferably in the bank on day to day basis.
- c) **Membership Fees:** Check fees received with membership register ensure proper classification is made between entrance and annual fees and life membership fees. Reconcile fees received with fees to be received during the year.
- d) **Subscription:** Check with subscription register and receipts issued. Reconcile subscription received with printing and despatch of corresponding magazine/circulars/ periodicals. Check the receipts with subscription rate schedule.
- e) **Interest and Dividends:** Check the interest and dividends received and receivable with investments held during the year.

6.4. SELF ASSESSMENT QUESTIONS

- i) What is vouching?
- ii) What are the key issues that should be examined while vouching an expense/income?
- iii) How do you vouch the following classification of payments :
 - Payment of salary to secretary.
 - Payment made for purchase of computers.
- iv) How do you verify the under-mentioned receipts :
 - Collections made from beneficiaries.
 - Sale proceeds of old typewriter.
 - Donations received from individuals
 - Grant received from a foreign source.