

# 6

## C H A P T E R

# VOUCHING

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### Introduction

**6.1** An auditor adopts various procedures to obtain evidence on the basis of which he forms his opinion. One of the important audit procedures is vouching.

### Meaning and definition of vouching

**6.2** The term 'vouching' in the context of auditing has been defined by various academicians and authors. Some of the definitions are given below:

*According to Dicksee*

“Vouching consists of comparing entries in books of account with documentary evidence in support thereof.”

*Spicer and Pegler have defined vouching as,*

“The examination by the auditor of all documentary evidence, which is available to support the authenticity of the transactions entered in the client's records.”

From these definitions, it is clear that *vouching* is “the process of inspecting a document that supports a recorded transaction in order to verify the authority and authenticity of such a transaction.” Documentary evidence in support of a transaction is called *voucher*. In vouching, a transaction is selected from an account and then the auditor goes backward through the processing system to find the source documentation that supports the transaction. For example, to vouch a sales transaction, the auditor would look out for—

- (i) Whether the transaction occurred in the accounting period under review.
- (ii) Whether the entries made in the sales book can be traced to carbon copies of sales invoices.
- (iii) Whether the calculations in sales invoices are arithmetically correct.
- (iv) Whether authoritative procedures are being followed.

## Objects of vouching

6.3 The following can be stated as the objects of vouching—

- (i) Verification of authority and authenticity of transactions recorded in books of account.
- (ii) To ascertain that the recorded transactions are genuinely connected with the business.
- (iii) To ascertain that the recorded transactions are supported by documentary evidence called vouchers.
- (iv) To ensure that all vouchers pertain to financial year under audit, are addressed to business unit, relates to business of the client and are duly authorised.

## Routine checking and vouching <sup>→ audit process</sup> <sup>→ doc. evidence</sup>

6.4 The following points can be made about the relationship between routine checking and vouching :

- (i) The auditor verifies the arithmetical accuracy of the entries through routine checking. In vouching, entries are checked with the help of documentary evidence.
- (ii) Vouching also includes examination of documentary evidence in support of recorded transactions besides routine checking. Thus, routine checking is a part of vouching.

## Vouchers

### Types of voucher

6.5-1 Voucher may be of two types—

- (i) **Primary** - The primary vouchers constitute original evidence e.g., cash memos, rent receipts, agreement with vendors, wage-sheets, etc.
- (ii) **Collateral/Secondary** - Secondary vouchers are copies of original evidence and they support a primary voucher e.g., carbon copies of a cash memo and rent receipts, counterfoil of a pay-in-slip, etc.

### Examination of voucher/Principles of vouching

6.5-2 While examining the vouchers the auditor should note the following points:

- (i) All vouchers should be consecutively numbered and filed properly.
- (ii) Each voucher should be dated and such date should fall within the financial year under audit.
- (iii) Voucher should be addressed to the client and should relate to business of the client.
- (iv) The amount shown on vouchers should be calculated accurately and amount in words and in figures match.

- (v) The signature of the *official* authorising the transaction is there on the voucher.
- (vi) Vouchers are properly affixed with a revenue stamp as per the requirements of law.
- (vii) Vouchers *originating outside* the business are genuine.
- (viii) Vouchers inspected should be *cancelled* by a stamp lest they should be produced again.
- (ix) Vouchers are *entered properly* in financial books *e.g.*, proper allocation of expenditure is made between capital and revenue; cash purchases are not recorded twice-once in cash book and then in purchase book.
- (x) Vouchers are valid *e.g.* shareholder's resolution (a voucher) should adhere to the scope and limitation of the powers given to them by memorandum of association and articles of association; price shown on sales invoice should be as per approved price list/contract with customer.
- (xi) In case of missing vouchers, the auditor should ask for the reasons for the same and should rely on appropriate evidence in such cases *e.g.*, in case of a missing purchase invoice, he may obtain a duplicate copy from the client.
- (xii) The auditor should not seek help of the client's staff while vouching.

### 6.5.3 Missing vouchers

- **CONCEPT** - While checking the entries in books of account with the relevant documentary evidence, it may happen that vouchers against certain recorded transactions may not be available in the vouchers' files to the auditor. These are called missing vouchers.
- **LISTING MISSING VOUCHERS** - The auditor should make a note of all such transactions in audit note book which are recorded in the books but against which vouchers are missing. He should prepare a list of such missing vouchers and try to trace them.
- **AUDIT PROCEDURES TO BE ADOPTED TO TRACE MISSING VOUCHERS** - Appropriate audit procedures for the purpose of tracing missing vouchers would depend upon the type of such vouchers. Some examples are given below :

- (a) It is quite possible that important vouchers like share certificates, fixed deposit receipts or registered transfer deed for land and building may be missing from vouchers' files. They may be either in the safe custody of some important official or with a bank or a financial institution as a security against a loan obtained by the client. In such cases, the auditor can check these vouchers either with the officers concerned or confirm the custody by corresponding with the concerned bank or financial institution.
- (b) If the business has entered in a contract for the purchase of land and building with a third party, it may not be possessing title deed for such land and building at the time of audit. If registration of property is pending, the auditor can examine the contract between

client and the seller and in cases where registration has been done but the transfer deed has not been delivered to the client, the auditor can go to the office of the Registrar to verify the accuracy of the recorded transaction.

- (c) In some cases by corresponding with the debtors and creditors, the auditor can obtain information about the receipts or payments.
- (d) In cases of regular payments or receipts, he may apply common sense to vouch transactions. For example, if rent receipts are available for the month of April and June and missing for May, it may be inferred that rent has been received for the month of May also.

The auditor can, thus, apply various audit procedures to trace missing vouchers. He can seek explanations from officers or employees of the client about the vouchers which he could not trace. If the auditor is not satisfied with the explanations given, he should mention this fact in his report.

### Importance of vouching

**6.6** Vouching is the essence of auditing. It is called so because of the role played by it in achieving the objects of auditing and its contribution towards the successful conduct and completion of audit work.

- **SERVES AS A BASIS TO EXPRESS AN OPINION ABOUT TRUTHFULNESS AND FAIRNESS OF FINANCIAL STATEMENTS** - The auditor satisfies himself with regard to accuracy, authority and authenticity of transactions recorded in books of account through the process of vouching. After being satisfied, he can say emphatically if the balance sheet and profit and loss account drawn from the books can give a true and fair view of the business. Thus, without vouching, the auditor cannot achieve the primary object of audit.
- **HELPS IN DETECTION AND PREVENTION OF FRAUDS AND ERRORS** - Vouching not only entails comparison of a recorded transaction with documentary evidence but also lays emphasis on ascertaining the genuineness, validity and proper recording of each transaction. This helps in detecting most of the errors and frauds, howsoever, cleverly committed.
- **FORMS THE BASIS FOR SUCCESSFUL CONDUCT AND COMPLETION OF AUDIT WORK** - The success of audit process depends on the care and caution with which the auditor carries on vouching. If the auditor goes about vouching in a haphazard and reckless manner and does not examine the authenticity of vouchers, he may be held liable for not detecting errors and frauds. In *Armitage v. Brewer and Knott* [1932], the auditors were found guilty of negligence. An employee of the firm having full charge of the books of account and of payment of wages, had carried out extensive defalcations chiefly through falsification of wage sheets and petty cash vouchers. The court opined that the auditors did not exercise even a moderate amount of inquiry and care and their excuse that "this or that was a small matter" was untenable. The court awarded damages to the client.

✓ **RELIANCE BY AUDITOR** - In cases of organisations having a sound internal control system, the auditor might reduce the extent of vouching. But reliance on such a system would not curtail the responsibility of the auditor in any manner.

Thus, vouching is fundamental to all audit procedures and success of an audit depends upon the efficiency and effectiveness with which vouching is accomplished. *De Paula* has quite rightly stated, "Vouching constitutes the foundation upon which the superstructure of auditing is erected".

## Vouching of sales items

6.7 While vouching sales items, the auditor should obtain relevant documentary evidence needed for the purpose. He should also review the internal control system to assess the reliability of documentary evidence generated by it. Procedures for vouching of specific sales item in a manufacturing concern are given below :

### Vouching of credit sales

6.7-1 In order to vouch credit sales, the auditor should follow the procedures mentioned below (see Table 6.1 also) :

- (i) **Examine sales book** - All the entries made in the sales book are traced to carbon copies of sales invoices. As carbon copies can be easily altered, the auditor should look for other supporting documents such as goods outward notes, railway receipt/transporter's receipt/bill of lading and customer's purchase order. Once all the relevant vouchers are obtained, he should examine them for details such as date, name of the customer, quantity and type of goods, price, validity, proper authorisation, etc.
- (ii) **Examine sales invoices** - After obtaining relevant documentary evidence, the auditor should select a sample of invoices at random and apply audit-in-depth on them *i.e.*, follow the flow of work from the receipt of original order to the ultimate despatch of goods and settlement of the account.
- (iii) **Examine the numerical sequence of source documents generated within the organisation** - The auditor should ensure that numerical sequence of source documents such as sales order, goods outward notes and sales invoices is being maintained and should ascertain the reasons for missing numbers, if any.
- (iv) **Routine checking** - Routine checking should be performed to ascertain the accuracy of totals of sales book and debtors' accounts and to check carry forward of totals and posting of entries in appropriate ledger accounts and then on to trial balance.
- (v) **Examine cut-off points** - The auditor should ensure that recorded transactions occurred during the financial year under review. In case of the transactions, whose precise date is difficult to determine because of time lag between the despatching of goods and recording them as sales, the auditor should examine cut-off points on prenumbered sales order, sales invoices and goods outward notes. Having examined the cut-off points, the auditor traces the goods outward notes and transporters' receipts to related sales invoices pertaining to few days before the end of the period.

under audit. Such an examination would ensure that sales represented by those invoices is recorded in the period in which title of goods is passed on to the customer.

### 6.7-2 Sales return

(i) **Examine sales return book** - Examine *sales return book* with reference to copies of *credit notes* issued to customers and *inward return notes*.

(ii) **Examine credit notes** - The auditor should examine *credit notes* issued to the customers with reference to *inward return notes* and *inspection report* of the receiving department. He should examine whether returns have been authorised as per the management's policy and the authorised official has issued credit notes.

(iii) **Examine cut-off points** - The auditor should examine the cut-off points of transactions relating to sales. He should trace the *inward return notes* pertaining to a few days before the end of the period under audit to the related *credit notes* issued to customers.

TABLE 6.1

### VOUCHING OF SALES ITEMS

Item	Procedures for vouching	Relevant documentary evidence
1. Credit sales	1. Examine sales book 2. Examine sales invoices 3. Examine numerical sequence of source documents generated within the organisation. Examine treatment of additional charges and trade discount 4. Routine checking 5. Examine cut-off points	a. Sales book b. Sales invoices c. Goods outward notes d. Transporter's receipt e. Purchase order
2. Sales return	1. Examine sales return book 2. Examine credit notes 3. Examine cut-off points	a. Sales return book b. Credit notes c. Inward return notes d. Inspection reports

## Vouching of purchase transactions

### Credit purchases

6.8-1 The auditor should vouch credit purchases by following the audit procedures mentioned below (see Table 6.2 also).

(i) **Examine purchase book** - The auditor should examine the transactions recorded in the *purchase book* with reference to related purchase invoice and other supporting documents attached to it - *purchase requisition, purchase order and receiving report or goods received notes*.

(ii) **Examine purchase invoices** - The auditor should select a small sample of vendors' invoices at random and should conduct audit in-depth on them

*i.e.*, trace the transaction from placing the order to the entries in inventory goods for actual receipt and payment made to the suppliers.

- (iii) **Examine the numerical sequence of source documents** - The auditor should ensure that numerical sequence of source documents such as *purchase requisitions, purchase orders, receiving reports* and *vouchers* have been maintained and missing numbers have been duly accounted for.
- (iv) **Examine cut-off points** - In order to ensure that purchases were recorded at the point of time when title was passed to the client, the auditor should examine cut-off points on prenumbered *purchase requisitions, purchase orders* and *goods received notes*. The auditor should, then, trace the goods received notes pertaining to a few days before the end of the period under audit to the related purchase invoices. Such a comparison would ensure that purchases represented by such invoices have been recorded as the purchases of the period under audit.

#### 6.8.2 Purchase returns

- (i) **Examine purchase return book** - The auditor should examine *purchase return book* with reference to copies of *debit notes* issued to suppliers and *outward return notes*.
- (ii) **Examine debit notes** - The auditor should examine the copies of *debit notes* with reference to *goods outward return notes, original purchase invoice* and *advice note* for returns. He should also examine whether returns have been properly authorised and debit notes are prepared by the person authorised to do so.
- (iii) **Examine cut-off points** - He should trace the *outward returns notes and transporters' receipts* pertaining to a few days before the end of the period under audit to the related debit notes. Such an examination would reveal whether returns represented by debit notes have actually been recorded as the purchase returns of the period under audit.

TABLE 6.2  
VOUCHING OF PURCHASE TRANSACTIONS

Item	Procedures for vouching	Relevant documentary evidence
1. Credit purchases	<ol style="list-style-type: none"> <li>1. Examine purchase book</li> <li>2. Examine purchase invoice</li> <li>3. Examine the numerical sequence of source documents</li> <li>4. Examine cut-off points</li> </ol>	<ol style="list-style-type: none"> <li>a. Purchase book</li> <li>b. Purchase invoice</li> <li>c. Purchase requisition</li> <li>d. Purchase order</li> <li>e. Goods received notes</li> </ol>
2. Purchase returns	<ol style="list-style-type: none"> <li>1. Examine purchase return book</li> <li>2. Examine debit notes</li> <li>3. Examine cut-off points</li> </ol>	<ol style="list-style-type: none"> <li>a. Purchase return book</li> <li>b. Debit notes</li> <li>c. Goods outward notes</li> </ol>

Item	Procedures for vouching	Relevant documentary evidence
		d. Advice note e. Original purchase invoice.

## Vouching of cash receipts or debit side of cash book

### General approach

**6.9-1** The usual vouching procedures for cash receipts are discussed below :

- (i) **Examine cash book** - The auditor should examine *cash book* with reference to relevant *documentary evidence*, for example - carbon copies or counterfoils of cash receipts, letters of confirmation for verifying balances outstanding against debtors' name, tenancy agreement (in case of rent received), broker's sold note (in case of sale of investments), etc. These vouchers should be examined for all necessary details such as date, amount, authorisation, etc.
- (ii) **Examine the counterfoils of pay-in-slips** - In a business, having satisfactory internal control system, all the cash/cheques received should be deposited into the bank account on the same day. The auditor should compare the dates on the *counterfoils of pay-in-slips* relating to deposit of cash/cheques/drafts into the account with the dates entered in the *cash book* and should enquire into the causes of delay, if any. He should be careful with regards to the *dishonoured cheques* returned by bank and *bills of exchange discounted* but not yet settled. In case of disagreement between passbook balance and the balance shown by cash book, the auditor may prepare a *bank reconciliation statement*.
- (iii) **Examine the carbon copies of receipts** - The auditor should examine the *carbon copies of cash receipts* which are issued as acknowledgement by the entity. These receipts are generally printed and consecutively numbered. He should examine the particulars relating to date, amount, signature of proper recipient authority and name of the payee and on what account cash has been received from him. He should ascertain whether all the cash receipts have been entered in a numeric sequence in the cash book. If any, receipt is lost or its duplicate copy has been issued, a responsible official should have authorised it.
- (iv) **Routine checking** - The auditor should examine the arithmetical accuracy of *cash book*, carbon copies of *cash receipts* and counterfoils of *pay-in-slips* and posting of transactions from the cash book to relevant *ledger accounts*.

### 6.9-2 Vouching of cash sales

- (i) **Examine cash book** - The auditor should examine the cash book with reference to *daily cash sales summary* and copies of *cash memos*. If automatic cash recording machines are being used by the entity, the

auditor should use locked-in totals of cash received as shown by the machine for reference. In case computerised tills are being used, entries in *cash book* should be compared with *till records*.

- (i) **Examine cash memos** - The auditor should select a sample of cash memos and—
  - (a) Examine whether the prices charged, discounts allowed and rates of sales tax charged, as shown by cash memos are correct and properly authorised.
  - (b) Trace them through the *salesmen's summary to cashier's cash sales summary* and the *gate-keeper's goods delivered summary*.
  - (c) Examine whether the dates on cash memos and cash sales summary are the same.
- (ii) **Examine the counterfoils of pay-in-slips** - The auditor should examine the counterfoils of *pay-in-slips* with reference to *cash sales summary* to ensure the deposit of entire sales proceeds into the bank on the same day.
- (iv) **Routine checking** - It should constitute the following—
  - (a) Checking the arithmetical accuracy of *cash memos, cash sales summary* and *gatekeeper's goods delivered summary*.
  - (b) Examining the classification of cash sales to ensure posting to correct accounting heads, in particular, amount collected as sales tax to *sales tax account*.

### 6.9.3 Rent received

- (i) **Examine cash book** - The auditor should examine the *cash book* for rent received with reference to the carbon copies/counterfoils of *rent receipts*.
- (ii) **Examine rent receipts**
  - (a) He should examine copies of rent receipts issued to tenants with reference to *rent bills* raised by the client.
  - (b) Ensure these bills are raised as per the terms and conditions of *lease deeds* or tenancy agreements and obtain a *list of properties lying vacant* and a separate *list of properties being occupied*.
  - (c) Examine the *rent receipts* for details such as whether the date and amount of rent payable (as per tenancy agreement) and that of actual payment (as indicated by rent receipt) are the same; whether there is a proper break-up of rent receipts into rental income for the period under audit, rent received in advance and outstanding rent collected for previous periods.
- (iii) **Examine the counterfoils of pay-in-slips** - The amount collected through *rent receipts* should be deposited into the bank account and the date and amount of such deposit should be checked with reference to counterfoils of *pay-in-slips*.
- (iv) **Pay special attention towards rent outstanding** - The auditor should vouch rent outstanding with reference to *tenancy agreements, rent bills, confir-*

*matory letters* from tenants and *list of properties occupied*. In case rents are doubtful, adequate provision for rent outstanding should have been made.

- (v) **Examine other relevant vouchers in case of disputes** - In case of disputes relating to rent, pending in a court of law, the auditor should examine other relevant vouchers such as correspondence with the lawyers.
- (vi) **Routine checking** - The auditor should check arithmetical accuracy of rent bills and rent receipts and ensure amounts collected under various heads, e.g., taxes, water and electricity along with rent, are posted to correct accounting heads.

#### 6.9-4 Dividends and interest income

- (i) **Examine the cash book** - The auditor should examine the *cash book* for dividends and interest income received with reference to *counterfoils of dividend/interest warrants* or the *forwarding note* (received from the borrower along with the cheque/draft relating to interest), *broker's note* in case of cum-dividend/interest purchase of securities and such other relevant vouchers.
- (ii) **Examine the dividend/interest warrants or the forwarding note**
  - (a) The auditor should examine these warrants with reference to *schedule of investments* or *schedule of loans and deposits prepared by the client* and calculate the amount received which pertains to the period under audit and amount outstanding.
  - (b) He should trace a sample of dividend/interest received from cash book through dividend/interest warrants to investment certificates and their deposit into the bank.
- (iii) **Pay special attention to interest outstanding** - The auditor should vouch interest outstanding with records of investments and loans and examine its proper disclosure in accounts.
- (iv) **Examine recording of dividends and interest at correct amounts** - In certain cases, dividends and interest are received by the client after deduction of tax at source. The auditor should ensure that dividends and interests are recorded at gross amounts and tax deducted at source has been debited to *Income-tax Account*.

#### 6.9-5 Commission

- (i) **Examine the receipt of commission in the cash book** - The auditor should examine the receipt of commission in the *cash book* with counterfoils of the *cash receipt*.
- (ii) **Examine counterfoils of the cash receipt** - The auditor should examine the counterfoils of *receipt* of commission with reference to the *agreement* between the client and the parties from whom it is receivable or *copy of account sales* (in case of goods received on consignment) or *bank advice* (in case of commission received from abroad) and relevant documentary evidence in other cases. This would help him in verifying details such as

due date of commission, basis of calculation, rate, mode of payment, and similar relevant facts.

- (iii) **Examine pay-in-slips** - The auditor should ensure that money has been deposited into the bank by reference to counterfoils of *pay-in-slips*.
- (iv) **Routine checking** - The auditor should make all the necessary calculations himself and also examine posting to the appropriate ledger accounts.

TABLE 6.3  
VOUCHING OF CASH RECEIPTS

<i>Item</i>	<i>Procedures for vouching</i>	<i>Relevant documentary evidence</i>
1. General approach	<ol style="list-style-type: none"> <li>1. Examine cash book</li> <li>2. Examine the counterfoils of pay-in-slips</li> <li>3. Examine the carbon copies of receipts</li> <li>4. Routine checking</li> </ol>	<ol style="list-style-type: none"> <li>a. Cash Book</li> <li>b. Counterfoils of pay-in-slips</li> <li>c. Carbon copies of receipts</li> <li>d. Relevant documentary evidence</li> </ol>
2. Cash sales	<ol style="list-style-type: none"> <li>1. Examine cash book</li> <li>2. Examine cash memos</li> <li>3. Examine the counterfoil of pay-in-slips</li> <li>4. Routine checking</li> </ol>	<ol style="list-style-type: none"> <li>a. Cash book</li> <li>b. Daily cash sales summary</li> <li>c. Cash memos</li> <li>d. Salesmen's summary</li> <li>e. Goods delivered summary</li> <li>f. Relevant accounting heads in ledger</li> </ol>
3. Rent received	<ol style="list-style-type: none"> <li>1. Examine cash book</li> <li>2. Examine rent receipt</li> <li>3. Examine the counterfoil of pay-in-slip</li> <li>4. Pay special attention towards rent outstanding</li> <li>5. Examine other relevant vouchers in case of disputes</li> <li>6. Routine checking</li> </ol>	<ol style="list-style-type: none"> <li>a. Cash book</li> <li>b. Rent receipts</li> <li>c. Rent bills</li> <li>d. Lease deeds/Tenancy agreements</li> <li>e. List of properties lying vacant</li> <li>f. List of properties being occupied</li> <li>g. Counterfoils of pay-in-slips</li> <li>h. Confirmatory letters from tenants</li> <li>i. Correspondence with the lawyers</li> </ol>

Item	Procedures for vouching	Relevant documentary evidence
4. Dividends and interest income	<ol style="list-style-type: none"> <li>1. Examine cash book</li> <li>2. Examine the dividend/interest warrants</li> <li>3. Pay special attention to interest outstanding</li> <li>4. Examine recording of dividend and interest at correct amounts</li> </ol>	<ol style="list-style-type: none"> <li>j. Ledger (for relevant accounting heads)</li> <li>a. Cash book</li> <li>b. Counterfoils of dividend/interest warrants or forwarding notes, etc.</li> <li>c. Schedule of investments, loans and deposits</li> <li>d. Investment certificates</li> </ol>
5. Commission	<ol style="list-style-type: none"> <li>1. Examine the receipt of commission in the cash book</li> <li>2. Examine counterfoils of the receipt</li> <li>3. Examine pay-in-slips</li> <li>4. Routine checking</li> </ol>	<ol style="list-style-type: none"> <li>a. Cash book</li> <li>b. Cash receipts</li> <li>c. Agreement between client and third parties or account sales or bank advice</li> <li>d. Counterfoil of pay-in-slips</li> </ol>

## Vouching of cash payments

### General approach

**6.10-1** The general vouching procedures in respect of cash payments are mentioned below:

- (i) **Examine the payments in the cash book** - The auditor should examine the entries in the *cash book* with reference to the relevant payment vouchers. He should pay special attention to details such as—
  - (a) The date, amount, serial number, account head, validity and arithmetical accuracy of the voucher.
  - (b) Voucher should be supported by *relevant documents*, for example, voucher for payment shown in cash book for freight and carriage expenses should be supported by bills submitted by transporter or carriage company and receipts issued by them to the client.
  - (c) The auditor should examine whether the *cash memo* against which payment has been made is in the name of the client, payment relates to the nature of business, goods/services mentioned therein are in conformity with specifications by the client and cash memo pertains to the period under audit.

- (d) The payment has been classified properly between capital expenditure and revenue expenditure.
- (e) The payment is properly authorised.
- (ii) **Examine the bank statement** - In case of payments made by cheques, the auditor should examine the numerical sequence of cheques issued and should ensure missing numbers are properly accounted for. He should check that each entry in the bank column of the *cash book* can be traced to a corresponding entry in the *bank statement*.
- (iii) **Routine checking** - The auditor should perform routine checks to establish the arithmetical accuracy of the cash memos and the cash book by verifying the totals, balances and carry forward of balances with the corresponding accounts in the ledgers. He should also examine the posting of entries for payments in the relevant ledger accounts.

#### 6.10-2 Cash purchases

- (i) **Examine the payment in the cash book** - Payment for cash purchases should be vouched against the *cash memos* or *receipted invoices* issued by suppliers.
- (ii) **Examine stock ledger** - The entries in *stock ledger* should be verified as an evidence of the goods having actually been received.
- (iii) **Routing checking** - The auditor should perform routine checks to ensure arithmetical accuracy of transactions recorded.

#### 6.10-3 Wages and salaries

- (i) **Examine the payments shown in the cash book** - The auditor should examine the payments made for wages and salaries and shown in the *cash book* by reference to *pay-roll summary* or *wage sheets* or *salary register*. He should ensure these have been properly signed by a responsible official.
- (ii) **Examine the pay-roll summary** - As already stated in Chapter 4 (paragraph 4.10-7), the *pay-roll summary* is prepared by the pay-roll function. It computes employees' gross and net earnings by using authorised pay rates and pay-roll deductions information supplied by the personnel department and base data supplied by production department. The receipt of the wages or salaries is acknowledged by the worker or employee either through a signature on the payroll summary or salary register or by a separate receipt. In order to ensure that accurate amount has been distributed as wages and salaries, the auditor should examine the pay-roll summary of few selected months in detail. He should, while examining such summary, pay special attention to the following points:
  - (a) Check the *computation of wages and salaries*. Ensure rate or amount of wages and salaries is in accordance with legal regulations or contractual requirements.
  - (b) Check the *statutory deductions* such as income-tax, provident fund and premium for group insurance schemes made from the wages

with reference to the *returns* submitted to the concerned authorities and receipts/acknowledgements issued by such authorities.

- (c) Examine *other deductions* such as recovery of housing loans with reference to *relevant registers*.
- (d) Perform *routine checks* to verify the arithmetical accuracy of the pay roll.
- (e) Compare the signatures of a sample of employees, indicating acknowledgement of receipt of wages for two or more months. If payments have been made to a representative of a worker, the auditor should examine *authority letters*.
- (f) In order to ensure that no dummy workers are included in the pay roll summary, he should check the names of some of the workers as mentioned in the summary with *job cards*. He should obtain a list of employees who have retired or left the entity during the period under audit and ensure that they have not been included in the pay roll.
- (g) In case of employment of *casual labour*, the auditor should ascertain whether proper *authorisations* have been obtained for such employment. He may pay a surprise visit on the site of employment of casual labour to assess the accuracy of attendance records maintained at the site.

(iii) **Examine unclaimed wages carefully**

- (a) In the case of unclaimed wages, a *schedule* is generally prepared by the client's staff showing the names of workers, the amount due and the period covered. The auditor should examine such a schedule and ensure that the said amount has been deposited into a bank in a separate account by referring to counterfoil of *pay-in-slip*.
- (b) In organisations where unclaimed wages are deposited with the main cashier, the auditor should vouch such deposit with an *acknowledgement letter* duly signed by cashier.
- (c) *Subsequent payment* out of unclaimed wages, should be verified with reference to *separate vouchers* which should also be signed by the head of department to which the employee belongs or by concerned supervisor. Such signatures are necessary to certify proper identification of the employee.

**6.10-4 Freight and carriage expenses**

- (i) The auditor should examine the payments shown in the *cash book* for freight and carriage expenses with reference to *bills* and *statements of accounts* submitted by transporters and clearing and forwarding agents and also with the *receipts* issued by them.
- (ii) The bills should be in the name of the client and rebate should be properly adjusted and should be arithmetically correct.

- (iii) The auditor should ensure that the expenses in respect of fixed assets are properly capitalised.
- (iv) Payments by cheques should be traced to *bank statement*.

#### 6.10-5 Repairs and renewals

- (i) Check the payment for repairs and renewals shown in *cash book* with reference to *statement showing estimates* submitted by maintenance staff or contractor, *bills for material purchased* and *acknowledgements* obtained for labour charges paid.
- (ii) Arithmetical accuracy of documentary evidence should be ascertained.
- (iii) Repairs should be charged to profit and loss account as revenue expenditure.

#### 6.10-6 Agent's commission

- (i) The payment to agent for his commission is checked with reference to *commission account*, *sales report* sent by him and *agreement* between the client and the agent for details such as rate of commission and other terms and condition.
- (ii) The auditor should check the relevant calculations himself and trace such payments to bank statements.

TABLE 6.4  
VOUCHING OF CASH PAYMENTS

Items	Procedures for vouching	Relevant documentary evidence
1. General approach	1. Examine the payment in the cash book	a. Cash book
	2. Examine the bank statement	b. Relevant documents
	3. Routine checking	c. Bank statement
2. Cash purchases	1. Examine the payment in the cash book	a. Cash book
	2. Examine stock ledger	b. Cash memos
	3. Routine checking.	c. Stock ledger
3. Wages and salaries	1. Examine the payments in the cash book	a. Cash book
	2. Examine the pay-roll summary	b. Pay-roll summary
	3. Examine unclaimed wages carefully	c. Job cards
		d. Returns submitted to various authorities
		e. Relevant registers
		f. Authority letters
		g. Schedule of unclaimed wages

Items	Procedures for vouching	Relevant documentary evidence
4. Freight and carriage expenses	<ol style="list-style-type: none"> <li>1. Examine cash book</li> <li>2. Examine bills of transporters</li> <li>3. Examine accounts to ensure proper classification of expenditure</li> <li>4. Examine bank statement</li> </ol>	<ol style="list-style-type: none"> <li>a. Cash book</li> <li>b. Statement of accounts and receipts received from transporters</li> <li>c. Bank statement</li> <li>d. Ledger (relevant accounts)</li> </ol>
5. Repairs and renewals	<ol style="list-style-type: none"> <li>1. Examine cash book</li> <li>2. Examine other relevant documentary evidence</li> </ol>	<ol style="list-style-type: none"> <li>a. Statement of estimates</li> <li>b. Bills, etc.</li> </ol>
6. Agent's commission	<ol style="list-style-type: none"> <li>1. Examine cash book</li> <li>2. Examine other relevant documentary evidence</li> </ol>	<ol style="list-style-type: none"> <li>a. Sales report of the agent</li> <li>b. Agreement between agent and the client</li> <li>c. Ledger (Commission A/c)</li> <li>d. Bank statement</li> </ol>