University of Mississippi

eGrove

Haskins and Sells Publications

Deloitte Collection

1925

Circumstances affecting cash

Anonymous

Follow this and additional works at: https://egrove.olemiss.edu/dl_hs

Part of the Accounting Commons, and the Taxation Commons

Recommended Citation
Haskins & Sells Bulletin, Vol. 08, no. 02 (1925 February), p. 10-13

This Article is brought to you for free and open access by the Deloitte Collection at eGrove. It has been accepted for inclusion in Haskins and Sells Publications by an authorized administrator of eGrove. For more information, please contact egrove@olemiss.edu.

face certain difficult tasks and accept certain audit responsibility. If he is given the opportunity of verifying quantities and values and keeping establishment of the inventory figures under control until completed, there appears to be no reason why he should shirk any audit responsibility in the matter and render other than an unqualified certificate in so far as it affects inventories. If he is not afforded the opportunity stated, there is no reason why he should assume responsibility which is not his.

The major reason, perhaps, for requiring an inventory certificate grows out of the fact that accountants too infrequently are retained to take or supervise inventories. If this function were included in an engagement, there should be little necessity for requiring an inventory certificate. Under circumstances of small or simple inventories, where inspection and a reasonable degree of business intelligence would permit of judgment with regard to obsolete or not readily saleable goods, there would be little further need for an inventory certificate. But the cases in which accountants run afoul, so to speak, of falsification are not ones where the inventories are small and simple. They are not cases in which inventories have been taken under audit supervision. Instead thereof the amounts are large, the inventories are complex, and the responsibility for some of the important component parts thereof is likely to be assumed by client, banker, lawyer, or someone else who is involved in the proceedings. As to lack of encumbrance, it is humanly impossible for the auditor to satisfy himself. The use of all reasonable means at times fails to disclose a condition wherein a part of the inventory is affected by a lien of one kind or another.

The securing of an inventory certificate should not be used by the accountant as an excuse for making his audit of the inventory any less thorough than he otherwise would make it. He should work independently, and should not substitute the word of others for his own investigation. An inventory certificate may be regarded only as a supplement to his own findings; a means of protection, as it were, to be used in case of necessity.

The time has arrived, apparently, when public accountants should lay aside some of the theoretical questions and be governed by the practical considerations which affect their work. An inventory certificate theoretically may have no value. A dishonest official may sign a certificate supporting a falsified inventory. The president of a company may have no personal knowledge of the details making up the total to which he certifies. But where an accountant is confronted with an embarrassing situation and some of the important parties to the situation are disposed to criticize the accountant, because of the shortcomings of others, for the disastrous results for which he may be in no way to blame, an inventory certificate may have value comparable to that of a rare jewel. An accountant's greatest asset is his reputation. If the taking of inventory certificates will help to protect his reputation, he should lay aside theoretical discussion and seize upon any honest and ethical measure which will preserve his professional standing.

Circumstances Affecting Cash

"CIRCUMSTANCES surrounding the particular case" perhaps have had a more profound influence on legal decisions than any other one thing. Observing much of present-day accountancy practice, it is not difficult to believe that the circum-

stances of cases have had less to do with deciding audit procedure than has anything else.

The judicial mind seeks all the facts; all the circumstances. It applies the law. The result is a decision. The legal profession has come to have almost reverent regard for circumstances which may give an entirely unforeseen slant to some case. Many a decision, doubtless, has been influenced to a marked degree by the light which the circumstances shed on the case.

The accountancy profession may take a leaf out of the book of its elder brother, especially in the principle of making decisions and subsequent procedure depend on circumstances. Some of the pioneers in the accountancy profession are well known for their practice and advocacy of these principles. But they have also gone so far as to argue for the futility of trying to make rules or codify methods. This has been on the ground that the appropriate methods in a given case could never be determined in advance; hence, it is useless to prescribe methods.

The fallacy of this reasoning has its analogy also in the legal field. It would be as senseless to advance the argument that because it will not be known in advance what kind of offense a judge will have to pass on in each case, it is useless to make laws prescribing penalties for various offenses. The judge should decide after hearing the case whether or not the accused is guilty of the charge. If he is guilty, the judge may fix the penalty according to his own judgment. The resulting chaos may be left to the imagination.

Somewhat the same chaos actually exists in the accountancy profession. Individuals have been left largely to their own intelligence and the devices and desires of their own consciousness in determining what to do in each particular engagement. The result has been not only highly diversified treatment but methods which have fallen far short of the efficiency which has reasonably been expected of the profession.

With some progress being made in emerging from the chaos by means of standard methods of procedure, constant thought is required in the application of methods. To the other essential qualities in a high-grade accountant there should be added "a fine sense of discrimination in the selection and application of methods." Some of the blunders which an accountant might make through wrong selection or application may be likened to those of a judge if he were to sentence a sneak thief to capital punishment.

A case in point is the verification of cash. Probably no other phase of audit procedure has been less influenced by the circumstances surrounding each particular engagement than the count of cash and the verification of bank balances. Yet there is probably no other feature of an audit more susceptible to diversification of methods as circumstances vary.

Any one of a number of different factors may influence the procedure in verifying cash: amount and location of cash funds; methods used in handling cash; time of examination in relation to the period audited; necessity for surprise; and systems of control and internal check in force —to mention only a few of the many that might be cited.

If the amount of cash in the custody of any one individual is small, so that any part thereof would be of no practical use to anyone else, it is immaterial when count is made. The time selected would be that most convenient. A small fund would be counted in detail, and vouchers, if any, listed individually. If, on the other hand, large amounts of cash are in-

volved, some thought must be given to time and method of verification. It might be desirable to defer count until the workings of the system in force are fully understood. If cash is segregated into a large number of funds, a time must be selected when simultaneous verification can be made, in order to preclude the possibility of concealing a shortage by a transfer of cash from an audited fund to an unaudited fund. The methods used in verifying a small fund might be ridiculous when applied to a large fund. Consequently, in the latter case, a test count might be sufficient. Vouchers, under such circumstances, might be grouped according to classes of expenditures, and not listed individually.

The cash system of the concern under audit has a bearing on the question of verification. An open fund—one where cash in hand is merged with cash on deposit—should be completely cut off during count. The count of cash in hand should be synchronized with the verification and confirmation of bank balances. On the other hand, it may be unnecessary to seal or otherwise control an imprest fund kept at a location so remote as to preclude the possibility of a part thereof being transferred to another fund. A fund temporarily including receipts should be counted, if practicable, at a time when the receipts are at their lowest point.

The element of surprise has a decided influence on the cash count. While in some cases the necessity for surprise may be small in comparison with other factors, in others it may be highly desirable that the custodian of cash funds be taken unawares. A shortage intended to be covered by temporary introduction of currency at time of count, probably would not be detected except by counting the fund at a time when the custodian least expected, and was unprepared to cover immediately. In cases where there is suspicion, or where the conditions surrounding a fund are such as to render abstraction easy, the desirability of surprising the custodian should take precedence over all other considerations in fixing the time for the cash count.

The extent to which it is necessary to go in auditing petty vouchers disclosed by cash count depends on the number and amount, and on the procedure of the client with respect thereto. A small number of properly supported vouchers would not require the attention devoted to a larger number, some perhaps irregular. The same applies to checks in the cash count. It would be foolish to apply the same methods to a small number of checks, or checks small in amount, all apparently received from customers, and to a large number of checks, or checks large in amount, found in a fund where the cashier has a free hand in cashing checks for outsiders or others.

The nature of the internal control exercised over a cashier, or the lack of an adequate system of internal check, affects the scope of verification. If a custodian is so located, assigned to duty, or restricted through internal control that he cannot make his cash available to other persons and other cash is not accessible to him, it is immaterial when his cash is counted. It is unnecessary to make an effort to synchronize count of his fund with verification of bank balances, or with counts of other funds. If, on the contrary, these specifications do not apply, it is vital to the discovery of a shortage that all cash be verified simultaneously. In a hotel, for example, one cashier might conceal a shortage by borrowing from another, unless all funds were brought to a central point to be counted, or were sealed as counted at different points, or were counted simultaneously by different individuals.

Where a cashier has access to cash on

deposit as well as to cash in hand, both should be verified at the same time. Where such cashier receives cancelled checks and makes bank reconciliations, greater care should be exercised in respect of such cancelled checks. There are possibilities of alteration and forged endorsements. There may be reason to examine in detail the dates on which the checks were paid by the bank, in relation to the dates of the checks. For example, a cashier might have concealed a shortage at December 31 by obtaining a check returned on February 1, but outstanding at December 31, and including such check with the checks regularly returned at December 31, thereby reducing the outstanding checks in the reconcilement of the latter date.

The ways of misappropriating cash are legion, differing with the ingenuity of the defaulter, and with the opportunities available to him for committing fraud. While instances might be compounded indefinitely, enough probably has been said to demonstrate the futility of attempting to detect every shortage by the same rule, without regard for the circumstances in the case.

Reviewing the Receivables

THE purpose underlying the audit of accounts receivable, as in the case of all other assets, is to ascertain that the client's figures represent an existing asset, correctly stated and properly valued. There are the further objects of finding out whether proper accounting theories have been used in setting up the asset, and whether the accounts have been free from manipulation during the period under review.

The exact nature and extent of the verification may depend on a number of governing factors. One is the nature of the engagement. In a verification of assets and liabilities, or a balance sheet audit, as it is frequently called, the objective probably would be simply a confirmation of the figures shown by the client's books to be due from others at the balance sheet date, having in mind the character of items which may be included under the caption. A more detailed audit, on the other hand, probably would comprehend a review of the transactions for the period for evidences of manipulation and error. The suspicions of the auditor, either preconceived or excited by incidents during the course of the engagement, would have considerable weight in arranging the audit program. Other factors may be the condition of the records, size and nature of the business, sales and collection policies, system of internal check in force, etc. Above all, the needs and wishes of the client and his willingness to pay for a detailed audit are not to be lost sight of.

Verification as to correctness of the client's statement of receivables probably is in most cases the main feature of the procedure. Perhaps the most satisfactory way to verify balances in customers' accounts is by confirmation from the debtors direct to the auditor. This has been opposed by a number of accountants on the ground that most customers will disregard statements and requests for confirmation sent to them, and will be more likely to take the matter up with the client's bookkeeper in case of a difference. A preponderance of past experience, however, seems to have demonstrated the usefulness of the confirmation method in those cases to which it is applicable. It is almost certain to be laborious and expensive, however, and an understanding concerning its use should be had with the client before proceeding.