

DCA/867/2021/AD(2)

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Dated.04/01/2023

CIRCULAR No. 01/2023

Sub :- Co-operative Department - Audit Directorate - Implementation of  
Team Audit - reg

Ref :-

As part of implementing Team Audit, a training and interaction program was conducted in ASCTI, Trivandrum. Issue of Draft Audit Memo, the method of maintaining the Working Sheet and the way in which Report is to be drafted, which were discussed during the program are restated below for strict compliance in 2022-23 Audit period.

**1. Audit Matrix**

An audit matrix for each type of Society is to be prepared in the following format which will contain all questions to be raised during the course of the audit in Column 2. These audit questions will be used by the auditor as a checklist during the course of the audit. Answers to the Audit Questions, irrespective of whether those answers are positive or negative, shall be recorded by the auditor in Column 4 of the Audit Matrix during the course of the audit.

Sl.No	Audit Question	Relevant Criteria	Yes or No to the Audit Question	If appearing in the Summary of Defects of Audit Report, then the relevant para/page
1	2	3	4	5

The audit matrix shall be complete when the audit is completed, and it will be submitted to the report approving authority along with the Audit Note.

The responsibility of completing the Audit Matrix shall vest with the respective auditor and that of review and approval with the respective report approving authority.

Model Audit matrices are attached for reference. These are indicative and not exhaustive. The auditor shall ensure that all checks to be exercised as per extant instructions are properly done.

(Column 3: Criteria are the benchmarks used to evaluate or measure the subject matter consistently and reasonably. Criteria for audit of Co-operative Societies include KCS Act and Rules, Audit Manual, Circulars issued by RCS etc. Without the frame of reference provided by suitable criteria, any conclusion is open to individual interpretation and misunderstanding. Where formal criteria are absent audits may also examine compliance with the general principles governing sound financial and operational management)

## **2. Draft Audit Memo**

Draft Audit Memo means a note or letter issued during the course of audit, to the audited entity, for eliciting information, confirmation of facts or any other matter considered necessary by the auditor in conduct of audit. Various questions raised during the course of the audit and all important errors/omissions that were detected shall be conveyed to the Society through Draft Audit Memo.

All draft audit memo, other than those requiring supply of documents and records, shall be issued over the signature of the team leader or carry an indication of her/his approval. The audit memo shall be dated and serially numbered.

The time within which data, information and documents are to be furnished to Audit will be indicated in the draft audit memo. The time allowed will be determined considering the nature and quantum of the data, information and documents requisitioned and the urgency of the matter. Draft Audit Memo as well as reply by the Society shall form part of the Working Sheet.

The draft audit memo are to be noted in the Defects Rectification Register and watched for receipt of reply, in the manner that is done now. If the explanation/reply to the Draft Audit Memo is satisfactory, the auditor shall drop his comment and only those items which are not replied/rectified satisfactorily are brought to the Audit Report.

### **3. Working Sheet**

As per para 5.17 of Part 1 of Audit Manual, the auditor should maintain the working sheets with the following particulars.

- (i) Various questions raised during the course of audit
- (ii) All important errors/omissions that are detected
- (iii) Explanations and information received for the queries raised
- (iv) Details of all missing vouchers, receipts, invoices etc
- (v) Points which need discussion with the office bearers the society
- (vi) The action taken by the auditor on serious irregularities, status of special report etc.

However, it is noticed that Working Sheets are not properly maintained. Hence it is reiterated that the working sheets are to be maintained by the auditor in such a way that the progress and the stage of audit can be easily ascertained from them. The JD/AD concerned should thoroughly watch the proper maintenance of working sheet, during the course of the audit. When the audit is finalised and submitted to the report approving authority, before approving the report, the report approving authority should thoroughly examine the working sheets to ensure the quality, completeness and reliability of audit.

### **4. Summary of Defects in the Audit Report**

Summary of Defects in the Audit Report should contain the following.

**Introduction-** This part may commence with an overview of the Society and may provide its functional/geographical areas, budget for the year, financial performance over the period under audit and two years before that and a perspective of the quantum of activities in the Society.

***Audit findings***—This part shall contain all findings – that pertain to the Society and may be arranged in two distinct parts - Part A and B - the first part comprising significant audit findings and the second part – B comprising other incidental findings. Each audit finding should have a heading and the para should be drafted as mentioned in Para 5 below. The audit paras should be numbered. The audit paras should be organised under suitable heads, if possible. Audit findings may also appropriately indicate the extent of non-compliance and whether they involve systemic issues or represent isolated cases of non-compliance.

***Follow up on findings outstanding from previous reports***—This part shall indicate the progress of rectification of audit findings outstanding from previous Summary of Defects and list out the findings that continue to be outstanding.

The responsibility of drafting the Summary of Defects shall vest with the respective auditor and that of review and approval with the respective report approving authority.

## **5. Audit Paras**

Audit becomes meaningless if defects and irregularities are not complied timely and properly and quick action on audit findings are not taken. Proper reporting is of utmost importance which will not only facilitate management to take corrective action but also will help the administrative authorities to take instant action to bring managerial and financial discipline in Cooperative organisations. For each audit finding, the auditor should quote the criteria (provisions of the Act, Rule, Byelaw, Sub rules, Circulars etc) which are violated. This will be first issued as Draft Audit Memo (para 2) as soon as it's noticed. If the explanation/reply to the Draft Audit Memo is satisfactory, the auditor shall drop his comment and only those items which are not replied/rectified satisfactorily are brought to the Audit Report.

Analytical Steps to reach audit conclusion is detailed below.

1. Audit Criteria- 'What Should be'
2. Audit Evidence- 'What is'
3. Audit findings- 'What is' compared with 'What should be'
4. Determine the causes and effects of the finding

5. Develop audit conclusions
6. Audit recommendations, if any.

Each Audit para in the Summary of Defects of the audit report shall be drafted in the above format. Society's explanation/reply to the Draft Audit Memo or lack there of may also be mentioned in the Audit Para before the Audit Conclusion stage.

## **6. Compliance Register**

As per Section 64(12)(c) of KCS Act, it shall be the duty of the committee of a Society to rectify all the defects mentioned in the audit certificate and to submit the rectification reports on the defects mentioned in the audit certificate, to the Director of Co-operative Audit and to the Registrar within two months of the receipt of the audit certificate. As explained in para 4 above, the auditor is to examine the Up to Date action taken by the Cooperative institution in detail and report about the number of paras complied and the number of paras outstanding for further compliance year-wise in the report after reporting Audit Findings in the Summary of Defects.

Similarly, compliance registers are to be maintained in each Circle Offices, which will list the outstanding paras in each of the Society in the Circle. Separate registers may be maintained for PACS and bigger societies. The compliance register is to be maintained in format 1 and QPR submitted to the Directorate in format 2.

### **Form No.-1** **Compliance Register - Name of the Society**

Period of Audit	Number and Date of Issue of Audit Certificate/ Memorandum	Para No. & Year	Action taken against compliance and dropped paras	Pending Paras

**Form No.2**  
**Quarterly Return on Pending Paras**

**Credit Societies/ Non-Credit Societies**

Circle	Name of Society	Number of Pending Paras			
		2021-22	2020-21	2019-20	Before 2019-20

  
Director  
Co-operative Audit

Copy to

1. Joint Directors of all Districts
2. All Taluk Assistant Directors
3. All Auditors