

DCA/867/2021/AD(2)

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Sub :- Co-operative Department - Audit Directorate - guidance note for
auditors on communication with societies being audited - reg

Rather than merely pointing out weaknesses or errors, the goal of cooperative audit should be to promote accountability culture in societies. Therefore, audit should be able to provide guidance to Board of Directors and management of the Society to improve performance and to discharge their responsibilities and duties properly. Audit becomes successful when the society implements the audit recommendations and is able to make positive changes in the functioning of the Society. This objective can be achieved to a large extent by building and maintaining professional working relationships with societies and ensuring societies cooperation in the audit process. This guidance note supplements the circular dated 04/01/2023 (DCA/867/2021/AD(2)) instructions.

It would require:

1. Understanding the entity, its environment, internal control framework, etc.
2. Having two way communication, at regular intervals.
3. Professional and objective behaviour throughout the audit process.

Keeping this in view, it has been decided that interaction with the Society Board of Directors and upper management at the following stages of audit process is must.

1. Intimation of audit

(Audit Manual, Part I, Para 5.2) - "Every Auditor/Audit team is likely to have in their charge a number of societies for audit. In order to complete the audit work of all societies efficiently and in time the Auditor/Audit team should have Annual programme/monthly programme fixing up priorities and get the programme approved by the Assistant Director/Joint Director. Then the probable date on which he/they would commence his/their work should be intimated to the concerned societies well in advance, say, at least a fortnight prior to the date of commencement of audit. The intention in giving prior notice is to enable the society to bring up its accounts up to date and also to prepare the required statements and schedules for audit well in advance, if not already done. Previous intimation would also help the society to obtain confirmation of balances of outstanding.

When audit of a society is to be taken up urgently due to any extraordinary circumstances and as per special directions from competent authority, the auditor can modify his programme and take up the audit of that society without prior notice. Likewise, where from any sources he comes to know about the existence of any fraud or misappropriation or other serious irregularity in any society under his charge, he should with the approval of his controlling officer, visit the society and commence surprise checking of the accounts with special reference to the suspected fraud, misappropriation or serious irregularity. He has also to conduct surprise checking of cash, stocks, securities etc. of the society".

The intimation may also refer to the management's responsibility and request their cooperation for successful completion of audit assignment. Acknowledgement of this communication may be requested and placed on record.

2. Entry Meeting

Entry meeting at the commencement of audit is to be held with the Director Board of the Society, the chief executive of the Society as well as the head of its branches, if any by the auditor/Audit team. If found necessary the concerned taluk AD or District JD as the case may be shall attend the meeting. In the case of PACS, representative from JR/AR office can be invited for the entry conference. In the case of societies under functional registrar, the concerned district/taluk

authority can be requested to attend the conference. The purpose of this conference is to inform the society about the audit objectives, audit criteria, the audit approach and the time-frame within which the audit is expected to be carried out. It is expected that during this meeting the audit team gets an understanding of the general state of internal controls and areas of concern or high risk, if any.

A protocol for conduct of audit is to be set up during this conference including nomination of liaison officers, production of records, arranging joint inspections, authentication of audit evidence including photographs etc, time period for replies to Draft Audit Memos and other logistic arrangements. This conference also gives the opportunity to discuss the concerns of the Director Board. The entry conference should be followed by preparing minutes of the proceedings which should be shared with the society and acknowledgement requested.

3. Conduct of Audit

Audit teams are required to keep a record of information and documents requested (audit requisitions) and received throughout the audit. The details of interviews taken, joint inspections etc., should also be kept. The response of the Society to Draft Audit Memos (DAM) should be carefully examined and views of the Society at responsible level may be sought while developing audit conclusions/recommendations. For reporting of instances of fraud and corruption, audit parties (audit teams) shall not wait for completion of audit and bring the instances to the notice of higher authorities immediately for further action.

4. Exit meeting

The audit team /auditor should hold an exit conference with the Director Board at the close of audit to seek their observations on the audit conclusions and recommendations. The minutes of such exit meeting should be prepared and shared with the audited entity and acknowledgement requested.

Points that should be discussed at the exit meeting

1. The Auditor/Audit team should prepare and read an evaluation report on the working of the society during the exit meeting. The report shall contain all major business items like growth/fall in paid up capital, deposits, borrowings, loans and advances, investments, trading if any, revenue on assets, cost of funds, management of funds, running cost, cost benefits analysis, fund erosion if any management of HR, responsibility of BOD, internal control etc. On reading this report in the Exit Meeting, the BOD can gain an understanding on the overall performance of the Society. The evaluation report shall be included in the Summary of Defects between 'Audit Findings' and 'Follow up on findings outstanding' under the heading 'Audit Evaluation'

2. All audit findings, conclusions and recommendations are to be discussed and as far as possible direct responses of the society are to be solicited and recorded. It is also a platform to arrive at an agreement with the society about audit conclusions and recommendations as far as possible. The attempt should be to get the society to respond directly to each recommendation so that these can be published in final audit report. It will also allow the audit team to clarify any point of doubt that the entity may like to raise.

3. Best Practices, positive responses/approaches by the BOD/CEO/IA/any other functionary should be appreciated and recorded.

4. The financial statements should be explained provisions/Reserves/ new due to/New due by should be explained.

The minutes of exit conference should be recorded and endorsed to the entity with a request to acknowledge the minutes within period of two weeks stating that in case of non receipt of acknowledgement within stipulated period, it will be presumed that audited entity concurs with the minutes.

5. Draft Final Report

The response of the audited entity to the specific recommendations should be incorporated in the final report.

6. Follow up activities

The circle offices, JD offices and Directorate are required to maintain compliance registers and periodically take follow up action on the pending audit paras with the head of Society to ensure compliance and rectification of defects. Frequent interaction with Audit Committees of the Society should be maintained to avail an opportunity to follow up on outstanding audit observations, non-implemented accepted recommendations and understanding audited entity's concerns. It is expected that at least two meetings in a year must be organised for follow up activities.



SHERIN.M.S IA&AS

DIRECTOR AUDIT COOP

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1. Registrar of Co-operative Societies
2. Joint Directors of all Districts
3. Joint Registrars of all Districts
4. All Concurrent Auditors
5. All Taluk Assistant Directors & Auditors through Joint Directors
6. All Taluk Assistant Registrars & Inspectors through Joint Registrars
7. Stock File
8. Website