

A.D.(1) 401/24

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CIRCULAR NO. 5/2025

Subject: Kerala State Cooperative Audit- Guidelines for the Audit of administrative matters and related accounts of Apex Societies – reg

1 Introduction

As per Section 63(10) of KCS Act, 1969, the administrative matter and related accounts of assisted apex societies shall be audited by the departmental auditors and submit the audit reports to the Director of Co- operative Audit. If the audit discloses any misappropriation or fraud or defalcation of money or property or assets of the society, audit team shall prepare a special report and forward the same to the Director of Co-operative Audit and the Registrar. The Registrar himself or the Director of Co-operative Audit in consultation with the Registrar, shall forward the special report to the Vigilance officer appointed under section 68A for detailed inquiry.

Section 2 (ad) defines Administrative Audit as a close assessment of all affairs of the Society, including constitution, management and establishment, maintenance of books and accounts and other records and internal control systems of the Society and the extent to which its activities were useful in promoting the economic welfare of the members in accordance with the cooperative principles, and it includes Compliance Audit as well as IT Audit.

This definition, inserted vides KCS Amendment Act (Act 9 of 2024) gives Administrative Audit a wide scope. An administrative audit has to be planned in a manner which ensures that a high-quality audit is carried out in an economic, efficient and effective way and in a timely manner. Adequate planning will ensure that appropriate attention is accorded to crucial areas of audit and that potential problems are identified in a timely manner. It is essential that Auditors plan the audit with an attitude of professional skepticism and exercise professional

judgment. Further, auditors should possess the knowledge, competence and skills to understand the compliance requirements that apply to the auditable entities.

These Guidelines are applicable for the audit of all Apex Societies in the State of Kerala. For Kerala Bank, these Guidelines are to be read in conjunction with the Circulars and other instructions given on the matter.

2 The steps involved in each individual Administrative Audit.

Sl No.	Steps	Due for submission to the Directorate on
1	Audit Guidelines	Within fifteen days of last report submission
2	Audit Design Matrix	Within thirty days of last report submission
3	Entry Meeting	As decided in the Audit Guidelines
4	Conducting the Audit	As decided in the Audit Guidelines
5	Inspections and Program Verifications	As decided in the Audit Guidelines
6	Test Audits	As decided in the Audit Guidelines
7	Submission of report	As decided in the Audit Guidelines

8	Report approval and issue of Memorandum/Certificate	Within 45 days of report submission
9	Follow-up on Audit paras	As per DCA Circular 2/24

3 Planning individual Administrative Audits

3.1 Planning consists of developing guidelines and assessing resources. Audit planning should lead to the development of a detailed audit proposal (audit guidelines) that identifies the specific audit tasks to be undertaken. An appropriate audit proposal makes it easier to ensure that the administrative audit coverage is comprehensive and realistic. Planning documents could also indicate the expected impact of the administrative audit.

3.2 The audit guidelines should be detailed, including information on the audited entity's environment, risks assessment, and description of the audit scope, and methodology as discussed in subsequent paragraphs. The audit guidelines for Apex Society are to be prepared for each audit of the Society by the respective auditor/audit team. If it is more effective and timelier to combine the audit of multiple years, that shall also be proposed by the auditor/audit team to the DCA through the audit proposal (guidelines). Adequate planning of the audit helps to ensure that appropriate attention is devoted to important areas of the audit, potential problems are identified and the work is completed expeditiously. Planning also assists in proper assignment of duties to team members and coordination of work performed by other offices within the Department and those of the experts, if required.

3.3 Preparation of audit guidelines for the Society to be audited would include:

- An understanding of the auditable society and its internal control environment, including the statutory, regulatory and legal framework applicable to the auditable society and the applicable rules, regulations, policies, codes, significant contracts or agreements etc.;

- The activities and key operations of the Society during the year under audit, location and scope of work of its units/branches, trend of budget and expenditure in various heads etc.;
- Nature of business of the Society, events and transactions and practices that may have significant impact on the financial information of the Society;
- Accounting System and accounting policies followed;
- Review of key business ratios, trends, and other financial information available at the commencement of audit;
- Identification of the intended users, including responsible party and those charged with governance;
- Consideration of materiality and risk assessment including suspected unlawful acts or fraud;
- Determining the scope of audit;
- Development of audit objectives;
- Identification of audit criteria;
- Sample selection of units of the Society;
- Extent of audit in each selected unit;
- Timing of audit as well as overall audit program;
- Assignment plan detailing the duties of the audit team members; and
- Considerations related to direction, supervision and review of the audit team(s).

3.4 Once the audit guidelines are submitted by the auditor or audit team to the report approving authority, the auditor/audit team shall prepare an **Audit Design Matrix** based on the audit guidelines. The Audit Design Matrix shall then be submitted to the report approving authority for review and approval within the time period given in Section 2 above.

Scope of Audit

3.5 The scope is the boundary of audit. It defines “what to audit”, “who to audit”, “where to audit” and “which period to audit”.

- **What to Audit** - The key focus areas for administrative audit would define the scope for “what to audit” and would also determine the criteria.

- Who to Audit - The specific apex society.
- Where to audit - brings us to selection of units for audit within the auditable entity, and also to the selection of transactions, areas etc. Sampling decisions would be crucial for this stage.
- Which period to Audit - the period of audit to be covered would have to be determined as per the risk assessment. The period of audit should ordinarily cover period from the previous audit to the current period. However, specific circumstances may exist where current risk assessment reveal areas of concern that warrant coverage of period included in previous audit(s). In case of different units/branches/commercial establishments of the specific apex society, the period of audit to be covered would correspond with the audit period of the apex

Administrative Audit Objectives

3.6 The overall Administrative Audit Objectives can be summarized as below:

- To assess whether the Society adheres to the formal criteria arising out of the laws, rules, regulations, Government Orders, bylaws, Circulars, sub rules and agreements applicable to the Society;
- To assess whether the general principles of sound financial management and ethical conduct have been adhered to; and
- To assess the extent to which its activities were useful in promoting the economic welfare of the members in accordance with the cooperative principles

Criteria

3.7 Criteria are the benchmarks used to evaluate or measure the subject matter consistently and reasonably. The criteria provide the basis for evaluating audit evidence, developing audit findings and conclusions. Criteria may be formal, such as a law or regulation, terms of a contract or agreement or less formal such as a code of conduct, principle of propriety or they may relate to expectations regarding behavior.

Understanding internal controls

3.8 Understanding internal controls is normally an integral part of understanding the entity and the relevant subject matter. In compliance audit, this includes understanding and evaluating controls that assist the executive in complying with laws and regulations applicable to the auditable entity. The type of controls that need to be evaluated depends on the subject matter, nature and scope of the particular administrative audit. In evaluating internal controls, auditors assess the risk that the control structure may not prevent or detect material non-compliance. Depending on its size and complexity, the internal control system in an entity may also include controls designed to correct identified instances of non-compliance, presence and effectiveness of institutionalized mechanisms such as Internal Financial Adviser system, Internal Audit system etc.

Auditors should obtain an understanding of the internal controls relevant to the audit objectives and test controls on which they expect to rely. The assurance derived from the assessment of internal controls will assist the auditors to determine the confidence level and hence, the extent of audit procedures to perform. This would also determine the sample size of implementing units to be selected as well as the sample selection of transactions etc.

Materiality

3.9 Materiality consists of both quantitative and qualitative factors. Materiality is often considered in terms of monetary value but the inherent nature or characteristics of an item or group of items may also render a matter material. Determining materiality is a matter of professional judgement and depends on the auditor's interpretation of the users' needs. A matter can be judged material if knowledge of it is likely to influence the decisions of the intended users. In formulating audit opinion or report, the auditor should inter-alia give due regard to the materiality of the matter keeping in view the amount, nature and context. In performing administrative audits, materiality is determined for

- a) Planning purposes;
- b) Purposes of evaluating the evidence obtained and the effects of identified instances of non-compliance; and
- c) Purposes of reporting the results of the audit work

3.10 During the planning process, information is gathered about the entity in order to assess risk and establish materiality levels for designing audit

procedures. Issues that may be considered material even if the monetary value is not significant would include the following:

- a) Fraud;
- b) Intentional unlawful acts or non-compliance;
- c) Incorrect or incomplete information to Board, the regulator, the auditor or to the Government (concealment);
- d) Intentional disregard to the Board, authoritative bodies including the regulator or auditors; and
- e) Events and transactions made despite knowledge of the lack of legal basis to carry out the particular event or transaction

Preliminary Risk Assessment

3.11 During the planning process, a preliminary review of overall risk and key risks in individual audit areas and their impact on audit procedures is to be assessed, considering

- past experience and audit classification and rating of previous years;
- accounting policies and financial reporting standards and degree of reliance that can be placed on them;
- Significant Audit areas; audit areas prone to risk of material misstatement or fraud.
- level of computerization of operations and its impact on book keeping and financial statements; use of specialized audit tools like computer assisted audit techniques (CAAT);
- Events/transactions requiring special attention, such as related party transactions, loan write-offs/reliefs, provision for nonperforming assets, contingencies, and market and industry conditions.

3.12 In performing compliance audits, auditors assess risks and perform audit procedures as necessary throughout the audit process. This is done in order to reduce audit risk to an acceptably low level in the particular circumstances, so as to obtain reasonable assurance to form the basis for the auditor's conclusions. The risks and the factors that may give rise to such risks will vary depending on the particular subject matter and circumstances of audit. Results of the risk assessment would again affect the sampling considerations.

3.13 As a part of audit, auditors should identify and assess fraud risk and gather sufficient appropriate evidence related to the identified fraud risks by performing suitable audit procedures. Auditors should include fraud risk factors in their risk assessments and remain alert to indications of fraud when carrying out their work. If the auditor comes across instances of non-compliance which may be indicative of fraud, the auditor should exercise due professional care, inform the matter to their next higher authority and follow the instructions in KCS Act and Registrar's Circulars.

Planning Audit Procedures

3.14 Planning audit procedures involves designing audit procedures to respond to the identified risks. The exact nature, timing and extent of audit procedures to be performed may vary widely from one audit to another. Nonetheless, administrative audit procedures in general involve establishing the relevant criteria and then measuring the relevant subject matter information against such criteria.

3.15 After determination of the scope of audit, development of audit objectives, identification of relevant criteria for measuring the selected subject matters, auditors should design an Administrative Audit Matrix for the apex Society in the following format. Similar Matrix is to be prepared for all Audit Objectives.

Audit Objective/ sub-objective and the branches/units where this is to be checked as per sample selection	Audit Questions related to Audit objective 1	Audit Criteria for each Audit Question	Audit Execution Procedures		
			Testing of Controls	Analytical Procedures	Substantive Procedures

For each audit question, the auditor is required to apply the audit planning process along with professional judgment to determine the appropriate type(s) of Audit Execution Procedures to be employed—namely, Testing of Controls, Analytical Procedures, and/or Substantive Procedures. The auditor shall assess whether the use of all three procedures is necessary or if one or a combination of two will adequately address the audit objective.

As outlined in section 3.12, risk assessment is an ongoing process that must be carried out throughout all stages of the audit. Should it become evident during audit execution that additional or fewer procedures are necessary to form a reliable audit opinion, the Audit Design Matrix may be revised accordingly. Any such revisions must be supported by documented justification outlining the rationale for the changes.

3.16 When administrative audit is planned and conducted for an apex Society having a head office as well as units/branches/stations, sampling for selection of transactions may have to be conducted at multiple levels. This multi stage sampling typically involves the following:

- i. Selection of transactions from within the head office of the Apex Society (either in whole or in part depending upon the selected specific subject matter) relevant to evaluation of the selected subject matters;
 - ii. Selection of units/branches under the Apex Society;
- And
- iii. Selection of transactions from the Units/branches/stations, as considered necessary, relevant to evaluation of the selected subject matters for the administrative audit.

3.17 Statistical sampling may be adopted for selection of transactions, which would enhance the level of verifiable audit assurance. Professional judgment needs to be exercised with regard to adoption of a suitable sampling methodology depending upon the risks identified, audit objectives being pursued and the envisaged scope of audit.

Administrative auditing in digital environment

3.18 In case of departments/ sectors where e-governance has taken roots and transactions are being conducted in virtualized environments, digital auditing can also be adopted by the audit teams. Digital auditing facilitates can be used for looking at whole of the population for outliers or unexpected variations. Such outliers can be taken up for detailed scrutiny. Data analytical tools can be of immense help here.

Team composition

3.19 Audit team(s) with an appropriate team composition should be constituted for each audit. The audit team should collectively possess the knowledge, skills and expertise necessary to successfully complete the audit. This includes an understanding and practical experience of the type of audit being undertaken, familiarity with the applicable standards and authorities, an understanding of the auditable entity's operations and the ability and experience to exercise professional judgment. The work allocation for each member of the audit team should be clearly delineated and it must be ensured that each member understands his/her role in the audit team. Appropriate arrangements should be ensured for providing direction, supervision and review of audit teams. When there are multiple teams for audit of the apex society, a lead team may be constituted from amongst the audit teams, which should be entrusted with the responsibility of providing a cohesive and synergized approach to administrative audit. The lead team in such cases may also be required to provide guidance, liaison support to other teams throughout the audit process and also consolidate audit findings of all other audit teams to enable achieving a holistic analysis and a reasoned conclusion.

Intimation to the auditable entity

3.20 After the overall strategy and audit plan as discussed above have been drawn up intimation should be provided to the Apex Society regarding the audit being taken up. The intimation should include the scope of audit, audit objectives being pursued, criteria that would be used to evaluate the subject matters, designed sampling of units/branches/stations/centers. The intimation should indicate the composition of audit team(s), duration and schedule of audit and should solicit the requirements from and co-operation of the Society for the smooth conduct of audit. A copy of such intimation shall be marked to the

Directorate. This shall also be presented during the entry meeting with the Apex Society.

4 Conducting Administrative Audits

4.1 Conduct of audits start after the finalization of audit strategy and audit plan. Conduct of audits is about gathering evidence, evaluating evidence, forming conclusions, documenting the audit process and communicating with the apex society and the concerned Registrar.

Audit Evidence

4.2 Audit evidence is the information used by the auditor for arriving at the audit conclusions. Auditors design and apply appropriate audit procedures to obtain sufficient and appropriate audit evidence in order to form a conclusion or opinion as to whether a subject matter complies, in all material respects, with established criteria.

4.3 The administrative auditor will often need to combine and compare evidence from different sources in order to meet the requirements for sufficiency and appropriateness of audit evidence. Professional judgment needs to be exercised in considering the quantity and quality of available evidence when performing the engagement, in particular when determining the nature, timing and extent of procedures.

Sufficiency and appropriateness of audit evidence:

4.4 The sufficiency and appropriateness of evidence are interrelated. Sufficiency is the measure of the quantity of evidence. The quantity of evidence needed is affected by the risks of the subject matter information being non-compliant or prone to compliance deviation (i.e. the higher the risks, the more evidence is likely to be required) and also by the quality of such evidence (i.e. the higher the quality, the less may be required). Obtaining more evidence, however, may not compensate for its poor quality. In assessing the sufficiency of evidence, the auditor needs to determine whether enough evidence has been obtained to persuade the intended users that the findings are reasonable. The need for further evidence is weighed against the cost and time needed to collect it.

4.5 Appropriateness is the measure of the quality of evidence; that is its relevance, its validity and its reliability in providing support for the auditor's conclusion.

- Relevance refers to the extent to which the evidence has a logical relationship with, and importance to, the issue being addressed;
- Validity refers to the extent to which the evidence is a meaningful or reasonable basis for measuring what is being evaluated. In other words, validity refers to the extent to which the evidence represents what it is purported to represent;

And

- Reliability refers to the extent to which the evidence is consistent when measured or tested and includes the concepts of being verifiable or supported. The reliability of evidence is influenced by its source and by its nature. While recognizing that exceptions may exist, the following generalizations about reliability of evidence are useful, when:
 - It is obtained from sources outside the responsible party;
 - It is obtained directly by the auditor e.g. by observation, inquiry and verification of the application of a control, by substantive checks;
 - It exists in documentary form whether paper, electronic or other media; and
 - It is obtained from different sources.

4.6 The auditor's professional judgment as to what constitutes sufficient and appropriate evidence is influenced by factors as the following:

- Significance of a potential non-compliance or compliance deviation and the likelihood of its having a material effect, individually or when aggregated with other potential non-compliance, on the subject matter information;
- Effectiveness of the responsible party's responses to address the known risk of noncompliance or compliance deviations;
- Experience gained during previous audit with respect to similar potential non-compliance or compliance deviation; and

- Results of procedures performed, including whether such procedures identified specific noncompliance or compliance deviation.

Gathering and Evaluating Evidence

4.7 The evidence gathering and evaluation is a simultaneous, systematic and an iterative process and involves:

- Gathering evidence by performing appropriate audit procedures
- Evaluating the evidence obtained as to its sufficiency (quantity) and appropriateness (quality)
- Re-assessing risk and gathering further evidence as necessary

4.8 The evidence gathering and evaluation process should continue until the auditor is satisfied that sufficient and appropriate evidence exists to provide a basis for the auditors' conclusion.

Gathering Evidence

4.9 Audit evidence is gathered using a variety of techniques such as the following:

- Document scrutiny** - This is the predominant mode of obtaining audit evidence and involves scrutiny of a wide variety of documents – Agenda and minutes of Board of Directors, files, cash books and accounting records, reports etc.
- Physical inspection/site visits**-This involves inspection of physical assets (e.g. mortgaged land, stores and stock etc.). Generally, such inspection is conducted jointly with Society personnel to ensure acceptability to the audit findings. Where the auditable entity does not co-operate with physical inspection, the fact of such non-cooperation may be appropriately documented and reported to the top respective Registrar, but the physical inspection may continue nevertheless by the audit team on its own. Photographs taken during physical inspection/site visits are an acceptable form of evidence, provided the location and date of photograph are amply clear.
- Observation**-Observation involves looking at the process or procedure being performed. In performing compliance audit, this may include looking at how transactions are processed in real time by staff of the

auditable entity, including processing of information and transactions in an IT system.

- d) **Questionnaires**- This involves seeking information from relevant persons within the auditable entity through issue of a formal questionnaire to elicit further information and gather relevant audit evidence.
- e) **Surveys**- This involves interaction with persons outside the auditable entity to get the information from the affected parties or the beneficiaries of programs/ schemes, as the case may be. This would involve careful selection of the survey sample, formulation of an appropriate survey questionnaire, collation and analysis of the survey responses. Evidence gathered from surveys would be corroborative in nature to support evidence gathered by conventional techniques.
- f) **Confirmation** - Confirmation is a type of inquiry and involves obtaining, independently of the auditable entity, a reply from a third party with regard to some particular information – for example confirmation of balances from the banks.
- g) **Re-performance** - Re performance involves independently carrying out the same procedures which have already been performed by the auditable entity. This can be carried out either manually or by computer assisted audit techniques. Where highly technical matters are involved, experts may be involved for re-performance.
- h) **Analytical procedures** - Analytical procedures involve comparing data, or investigating fluctuations or relationships that appear inconsistent. Data analytics tools, statistical techniques or other mathematical models could also be used in comparing actual with expected results.

Audit Findings Matrix

4.10 An Audit Findings Matrix shall be prepared and maintained throughout the course of audit execution, using the prescribed format provided below. This matrix must be finalized and submitted along with the Audit Report to the concerned authority for review and approval.

Audit Objective/sub objective and the	Audit Questions related to Audit	Audit Criteria for each	Audit Execution Procedures			Working Sheet Reference & Audit	Work completed initials and date	Audit Conclusions
			Testing of	Analytical	Substantive			

branches/units where this is to be checked as per sample selection	objective 1	Audit Question	Controls	Procedures	Procedures	Evidence Reference		

Documentation

4.11 Documentation of audit evidence supports audit conclusions and confirms that the audit was carried out in accordance with relevant guidelines/manual. As per Audit Manual **“to facilitate correct compilation of audit report it is always desirable that the auditor maintains a complete and permanent record of work done viz. “working sheets” during the audit of each society. This will be more helpful for purpose of reference later, if necessary.”** Auditors should adequately document the audit evidence in working papers (working sheets), including the basis and extent of planning, work performed and the findings of audit. Working papers should contain sufficient information to enable an experienced auditor, having no previous connection with the audit, to ascertain from them the evidence that supports the auditor’s significant findings and conclusions.

4.12 Adequate documentation is important for several reasons. It will

1. confirm and support the auditor’s opinion and report;
2. increase the efficiency and effectiveness of audit;
3. serve as a source of information for preparing reports or answering any;
4. enable answering enquiries from the Society or from any other party;
5. serve as evidence of the auditor’s compliance with Audit Manual as well as relevant guidelines and instructions;
6. facilitate planning and supervision; and
7. provide evidence of work done for future reference.

4.13 Documentation in each administrative audit should comprise

- a. Audit file and
- b. Working sheets.

The Audit file for each administrative audit may include documentation relating to the audit strategy, scope and methodology, sample selection, nature and timing of planned audit procedures, audit design matrix, supervision and monitoring the progress and quality of audit, audit findings matrix, conclusions reached and the significant professional judgements made in reaching those conclusions.

Audit file may also include discussions of significant matters with management, those charged with governance and others. Audit file, maintained in one or more folders or other storage media in physical or electronic form, therefore contains documents that summarize the specific audit. **Audit file should be properly indexed, referenced with and supplemented by the set of working sheets.**

Working sheets for each compliance audit comprise of all documents collected during the field audit process. They include the documents relating to the nature, timing and extent of audit procedures that were performed by individual members of the audit team, risk considerations for each audit area, method, logic and details of sampling for each audit area for which sampling is adopted, details of contracts/ agreements that were examined etc., evidences that were gathered, evaluation of evidences, consideration of written responses from responsible officials of the auditable entities, supporting key documents and the process of arriving at the results of audit procedures – audit findings and conclusions. The working sheets could also be in one or more folders and should be similarly indexed and referenced. Working sheets serve as a link between the field work and the audit report and should therefore be complete and appropriately detailed to provide a clear trail of audit.

4.14 Some of the broad characteristics of working sheets are set out below:

- Completeness and accuracy: Provide support to audit conclusions.
- Clarity and conciseness: Facilitates understanding the entire audit process without need for any supplementary examination.
- Legibility and neatness: Applies particularly to photocopies.

- **Relevance:** Working sheets should be restricted to matters, which are important, pertinent and useful for the intended purpose.
- **Ease of reference:** Working sheets may be organized in volumes in a manner that facilitates easy reference. An omnibus, easy to follow, index may be created for all the volumes with a proper narration to broadly explain their contents. Each of the volumes may further be internally indexed.
- **Ease of review:** Working sheets should contain cross references to draft audit memoranda, discussion papers, audit observations, audit report, audit file and other audit evidences as applicable to enable the supervisory officers to link the working sheets to audit findings and conclusions.
- **Complete audit trail of analysis:** Working sheets, along with audit file should provide a complete trail of the audit procedures performed, evidence that were gathered and evaluated, audit findings and conclusions that were drawn. This should contain evidence for positive findings as well.
- **Documentation of significant audit findings.**

Communication with the apex society

4.15 Good communication with the auditable entity throughout the audit process will help make the process more effective and constructive. Communication takes place at various levels and at various stages – during initial planning, conduct of audit and reporting. During planning phase –the audit strategy, suitable audit criteria and other elements of planning should be discussed with the appropriate level of management and those charged with governance. Regular interaction needs to be maintained throughout the audit conduct phase – to make enquiries of relevant persons, communicate any significant difficulties being encountered in audit and significant instances of non-compliance to the appropriate level of management or to those charged with governance.

4.16 Audit teams should also hold an entry meeting(s) with the board and heads of Apex society before the commencement of audit. During these meetings, the audit team should explain the purpose, objectives of audit, timelines and

cooperation expected from the head of the Society. Similarly at the close of audit, the audit team leader should also hold an exit meeting with the board and the officers in charge of the apex to discuss the audit findings and request responses. A draft report should be given to the Board and the officers in charge of the Apex at least 10 days before the exit meeting so that the Apex Society can come prepared for the meeting. All the findings and recommendations in the report need to be discussed with the Apex Society, and their reply to each specific audit finding and recommendation is to be recorded as minutes of the exit meeting and shared with the apex society and acknowledgement requested.

Draft Audit Memo

4.17 Draft Audit Memo means a note or letter issued during 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 audit and 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 memos 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.

4.18 If auditors come across instances of non-compliance, which may be indicative of unlawful acts or fraud, due professional care and caution needs to be exercised so as not to interfere with the potential future legal proceedings or investigations and respond appropriately as per extant instructions. Auditors may communicate their findings to the appropriate level of Management or to

those charged with governance and then follow up to ascertain whether appropriate action has been taken.

5 Reporting Administrative Audits

5.1 Reporting is an essential part of any audit as through this process the results of audit are presented to the intended users on the responsible party's compliance with the stated criteria. Administrative audits involve reporting the deviations from the applicable criteria and violations of the applicable rules, regulations etc., so that corrective actions may be taken, and those responsible for such deviations or violations could be held accountable for their actions.

5.2 Auditors should consider materiality for reporting purposes and adhere to the principles of completeness, objectivity, timeliness and contradictory process while reporting.

- The principle of completeness requires the auditor to consider all relevant audit evidence before issuing a report;
- The principle of objectivity requires the auditor to apply professional judgement and skepticism to ensure that all reports are factually correct and that findings or conclusions are presented in a relevant and balanced manner;
- The principle of timeliness implies preparing the report in due time; and
- The principle of a contradictory process implies checking the accuracy of facts with the apex auditable entity and incorporating responses from responsible officials as appropriate.

Forms and Content of Administrative Audit Reports

5.3 As the administrative audit involves evaluation of both regularity and propriety aspects, auditors are required to report the results of audit on both these aspects. The form and content of administrative audit report has been approved by Government in case of most of the Apex Societies. This shall be followed. Apex Societies for which such model is not available, or which needs revision based on these guidelines or the audit guidelines approved for that Apex Society (for example, if audit of more than one year is planned at a time), it shall be brought to the notice of the Director of Cooperative Audit immediately.

5.4 To ensure objectivity of the audit findings and conclusions of the Administrative Audit Report, confirmation of facts and figures by the Apex Society and incorporation of responses of the responsible party is very crucial. Auditors shall therefore ensure that facts and figures are accepted by the Apex Auditable entity and shall pursue responses from the Apex Society.

Structure of the summary of defects part of the audit report

5.5 The administrative audit report should preferably be presented as per the following structure:

- Title: Administrative Audit Report of ____ Society for the year ____;
- Executive summary: It provides the précis of the main report. The summary should not be very long and should contain only essential information. It should be a free-flowing narrative that tells the reader the story, keeping the principal message at its core. Hence it need not be in the sequence of audit objectives. (If audit objections are less in number, then there is no need of an Executive Summary)
- Introduction: It consists of a brief description of the Society under audit, information on its activity, its objectives, inputs, implementation structure, financial information etc. The introduction should be brief, yet sufficient to enable the reader understand the Society;
- Audit objectives: They are the pivots of the administrative audit, which set out the reason for undertaking the audit. The entire exercise of administrative audit is built around the audit objectives. These should, therefore, be stated in simple and clear terms. It is useful to set out the audit objectives and sub-objectives within each audit objective in the form of complete statement/question;
- Scope of audit: It is defined in terms of the period covered in audit and segments of the activities audited should be set out precisely;
- Audit methodology: It describes methods used for data collection/evidence gathering and testing. These may be stated in brief. This adds to the acceptability of the audit findings and forms a statement for transparency of the audit procedure;
- Audit criteria;

- Audit findings: Para system shall be followed (See DCA Circular No. 01/2023, Section 5). While putting forth the audit finding, the extent of deviation/misstatement will be clearly stated, wherever applicable. (Ex. In x cases out of y cases examined in audit);
- Acknowledgement: it may be useful to indicate or acknowledge in brief the co-operation, acceptance of the criteria/findings and recommendations by the apex society. In case the co-operation or response was not forthcoming at any stage it may be indicated if it has resulted in any limitation along with its implication and the special efforts made by the auditor and the Directorate to seek cooperation or response;
- Glossary of terms: It is helpful to the reader if explanations are provided in a glossary or easy-to-find footnotes. Glossary should be comprehensive, explaining all technical and uncommon terms used in the report

6 Follow up

6.1 The guidelines regarding Audit Follow-up and maintenance of the Compliance Register have been issued vide **DCA Circular No. 2/2024**.

All auditors and audit teams shall ensure strict adherence to the provisions and procedures outlined in this circular (2/2024). These guidelines are mandatory and are to be followed during:

- Monitoring of rectification actions by the auditee society
- Updating and maintaining the Compliance Register
- Reporting unresolved audit paras or delayed compliance to the approving authority

Procedure on Receipt of Defect Rectification Report from Apex Society

6.2 When the Defect Rectification Report is received at the Directorate from the Apex Society, the following procedure shall be followed:

1. The report shall be forwarded to the concerned auditor who conducted the original audit.
2. The auditor shall verify:

- Whether the defects mentioned in the audit report have been fully rectified, and/or
 - Whether the action taken by the Society is adequate and satisfactory to close the respective audit objection/para.
3. After verification, the auditor shall report the findings to the report approving authority in the format given below.

Audit Objection Closure Reporting Format

Sl. No.	Audit Para / Objection No.	Nature of Audit Objection	Action Taken by Society	Remarks of Auditor (on sufficiency of action/rectification)	Recommendation (Close / Further Action Needed)
1					
2					

Sd/-

Sherin M. S. IA&AS
Director of Co-operative Audit

To

All Auditors of Apex Societies,
District Joint Directors (Thiruvananthapuram, Kollam, Alappuzha, Ernakulam)

Copy to –

1. Registrar of co-operative societies, Thiruvananthapuram.
2. All district Joint Registrars
3. All district Joint Directors
4. All Joint director/concurrent Auditors
5. All apex Auditors
6. All concurrent Auditors
7. All Taluk Assistant Registrars and Inspectors
(Through Joint Registrars)
8. All Taluk Assistant Directors and Auditors
(Through joint Directors)
9. Stock file
10. website

//Forwarded by order//


Deputy Director