

No. VI(I) 62/99 3022 / Audit-8 / Dated:- 17/5/2004
(Pt-I)

C I R C U L A R .

Sub:- Issue of summons and half margin memos during the course of audit.

The scope of Audit of Cooperative institutions is not merely examination of accounts. It covers examination of both administrative and financial management of Coop.s to find out whether illegalities and irregularities have been committed in violation of provisions of O.C.S. Act and Rules there under, Bye-laws of the Society, Rules of Business and various Circular instructions of Registrar of Cooperative Societies, Orissa, Auditor General of Cooperative Societies, Orissa and the respective administrative Heads of Deptt. The scope of audit of Cooperative and the matter to be covered in one audit report is well defined in Section 62(2) of the O.C.S. Act, 1965 and under Rule 59 of the OCS Rules, 1965. In order to examine the Books of Accounts and the position of assets and liabilities of Cooperatives and prepare the audit report as per requirement under the above Rule, the Auditor has to obtain required information, documents etc., for his examination and the Officers and employees of Societies are bound to give all assistance to the Auditors as per provisions under Rule 58(3) of the O.C.S. Rules. To obtain required information, documents, files etc., and for any clarification for audit purpose, the Auditor has been empowered to have access to all the Books, accounts, documents, papers, securities, cash and other properties belonging to or in the custody of the Society at any time under Section 62(4) (a) of O.C.S. Act. He has also been given powers to issue summon and enforce attendance of any person to furnish any information or to produce any documents in his possession or power under section 62(4) (a) and (b) of the said Act.

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It has been made binding under Rule 58(3) that the officers and employees of the Society shall give the Auditor all assistance necessary for conduct and completion of audit and for this purpose in particular, prepare such statements and take such action with regard to the verification or examination of accounts and stocks as may be required by the Auditor. If they fail to provide such audit requirements, it is to be construed as hindrance to audit and hence, continuance of such persons can be ~~into inperx~~ interpreted as detrimental to audit. In such case, necessary legal action for suspension of the concerned officials/ Officers or staff of the society, from holding that position /post can be considered under section 62(6) of the O.C.S. Act by following procedures laid down in this Directorate Circular No. 4579 dated. 19.11.1999..

When Auditors have been given all the powers mentioned above to properly conduct audit and to submit their audit report covering all aspects laid down under Rule 59 of the O.C.S. Rules, 1965, it is observed with much displeasure that in many cases the audit reports are not revealing many irregularities and illegalities which are subsequently coming to light through special audit or enquiry. Moreover, when surcharge proceedings and criminal action are initiated on the basis of audit reports and the same authority who issues the audit report is to initiate and dispose surcharge proceedings, unless the audit findings are supported with details of documentary evidence in support of findings, it may lead to embarrassing situations for this Directorate of Cooperative Audit.

Besides, recently, during disposal of surcharge proceedings, some defendants replied that the audit report is not based on facts and that the audit findings have been drawn up behind their back as the auditor did not summon them during audit to explain nor obtained ~~informax~~

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informations from the institution through half-margin memos to reach the conclusion. Even though the person may be guilty of an illegality, he may get the benefit of doubt in a Court of Law or in surcharge proceedings due to this lacuna of audit.

To Obviate these legal problems and to present the audit reports with complete facts as per requirements under Rule 59 of O.C.S. Rules, 1965 and the Circular instructions on presentation of audit reports, the auditors are to strictly follow the following instructions during the course of their audit.

- 1.(a) For APEX, State Level C.S. Central level C.S., CARD Banks, Urban Banks and big primaries.
 - (i) Immediately after reaching the Society for audit purpose, they must show the audit authorisation order to the Chief Executive and intimate him the date of commencement of audit.
 - (ii) Next issue summon to Chief Executive to produce cash balance, Bank Pass Books, Securities and other valuables with connecting records for physical verification at commencement of audit giving date, time and place in the summon for such verification. This should preferably be done on the first day of commencement of audit itself to exactly know if ~~the cash~~ the cash book has been written up-to-date or not and whether physical verification of cash by the institution itself has been done regularly or not. If not, this itself becomes a valid audit observation to be written in the Audit Report. This could be confirmed then and there by issue of a formal half-margin memo stating the objection.
 - (iii) Issue half-margin memo to Chief Executive to submit
 - (a) A copy of Bye-laws
 - (b) list of records maintained with their condition of maintenance i.e whether they are maintained up-to-date properly for entire period covered under audit and whether all the accounts are reconciled or not -

(After obtaining reply to this half margin memo read the Bye-laws and note down important points

relevant to audit for examination during the course of audit.

The position of maintenance of records, reconciliation etc., should be ascertained to facilitate the auditor to draw his audit programme and plan his work and decide the risk-prone areas where he should concentrate his audit effort) If any Books of account and documents/ records are incomplete auditor should allow fixed date in writing to the Chief Executive to up-date such record according to auditor's requirement as per his programme. This will facilitate timely completion of audit without break due to non-maintenance of records.

iv) The Auditor has to issue another half margin memo to the Chief Executive to intimate the name and designation of the Officer who is to be in-charge of producing records, documents etc., to Auditor and to whom he is to contact for audit requirements

Note:- The list of records examined by Auditor is to be enclosed to Audit Report in each case.

After obtaining the above informations through half margin memos, the Auditor has to start audit work from vouching.

V) All transactions of Cooperative institutions are regulated either by provisions of O.C.S. Act, Rules, Bye-laws, B.R. Act, N.I. Act, Income Tax Act, Labour Act, Payment of Bonus Act etc., or Circular instructions of Registrar of Cooperative Societies, Orissa, Auditor General of Cooperative Societies, Orissa, administrative Directorates, R.B.I. BOARD, Other financing agencies and approved Rules of business of institutions. The Auditor need be thorough about such provisions and circular instructions before vouching. If during the course of audit i.e. either during vouching or examination of records, the auditor doubts genuineness of any transactions, any recording in books of accounts and other

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records, any action of management contrary to provisions of law, circular instructions, rules of business etc., he should immediately issue half-margin memos to the Chief-Executive for reply within reasonable time not exceeding 3 days to clarify/ comply. The findings of audit report on such points should contain mention of details of such transaction reply to half margin memo and the conclusion of auditor thereof.

In no case the reporting on an objectionable expenditure, illegal finance, improper extension, illegal action of management etc., should find place in audit report without issue of half-margin memo and reply of the institution thereof. If after giving reasonable time for reply the institution fail to comply any half-margin memo, the Auditor should mention the same and draw his conclusion in audit report.

(b) For Primary Societies other than CARD Banks, Urban Banks, bigger Primaries. Since the audit programme of these Societies does not allow sufficient time for issue of half margin memos and getting their compliance to audit observations, the auditor has to get written reply from Secretary on audit observations and copies of relevant documents, duly certified by the Secretary for proof of findings and append them in audit reports.

2. As per provisions under section 62(4) (c) of the O.C.S. Act, 1962, the Auditor shall have powers to take such copies of documents or of any entries therein as may be considered necessary for audit.

If to substantiate his findings the auditor feels it necessary to obtain such copies, he has to issue half-margin memo to the Chief Executive of the Institution to provide certified copies of documents or any entries in records of Society within reasonable date.

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3. If it is felt to examine any present or past official/directors/employees/member of the Society partially to explain any transaction or decision or information required for audit purpose, the auditor has to issue summons to them to appear before audit specifying the place, date and time. The result of this summon is to be recorded in the audit report.

As per provisions under Rule 58(A) (i) of the O.C.S. Rules, 1965 every Auditor conducting audit on behalf of Auditor General of Cooperative Societies, Orissa shall forthwith endorse ~~xx~~ copies of all objection memos and compliances received there to the Auditor General of Cooperative Societies (for Circle Assistant Auditor General of Cooperative Societies) who shall take those in to account for giving such directions to the Society as he may deem proper. The-refore, ti is now legally binding on Auditors for issue of half margin objection memos during the course of audit. Any audit finding without support of half margin memo is to be treated as perfunctory audit and shall warrant warrant action against concerned Auditor.

The Assis Auditor General of Cooperative Societies of Circles and the reviewing officers at Headquarters shall review the position of issue of half-margin memos, summons to, alongwith replies received thereof in monthly meetings of Auditors individually. Any Auditor found lacking should be adequately cautioned and if no development is noticed in his performance, be proceeded against.

This review should find place in monthly field staff meeting proceedings hence forward.

Memo No. 3023 ⁽¹⁶⁾ / Dated: 17/5/2004 Auditor General of C.S., Orissa.

Copy forwarded to all Asst. A.G.C.S., of Circles for information and necessary action. They are requested to circulate the copy of the above circular instructions amongst the auditors of their circle for their information and doing the needful.
Copy to G.F./

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Joint Auditor General of C.S. (0)

Dash. 12.5.2004.