

# **CONTENTS OF AUDIT REPORT**

## **PART - A**

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**CA. RAMESH S. PRABHU**

## **AUDIT REPORT PART - A**

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**(a) Part A:-** This part should consist of the serious irregularities, on which the registrar has to take action immediately. Also contains the serious irregularities in administration of the society, serious breaches of Act, rules and byelaws. Or the points which are required for making the special Report, for taking Actions against the Society, by the Registrar. **Part A of audit report shall generally include the following items;**

- 1) Fraud
- 2) Misutilisation of funds and properties

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- 3) Misapplication of funds
- 4) Manipulation of accounts
- 5) Falsification of accounts
- 6) Auditor shall quantify shortfall in various provisions over profit or loss and state clearly that after considering the effects of all provisions whether there is profit or loss to the society.
- 7) Serious infringement of provisions of Act, Rules, Byelaws and notification.
- 8) Misutilisation of capital / loan / grant received from Government.

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- 9) Personal expenses which are debited to Profit and loss account.
- 10) Contravention of cash limits as per Rule 107 (c).
- 11) Payment in cash in excess of the limits laid down in the Income Tax Act as per Rule 107 (d).
- 12) In case of banks, property sold under Securitization Act 2002 below Reserve Price.
- 13) Contravention of unit exposure norms and sectoral exposure norms in case of UCB, MSCB and DCCB.
- 14) Sanctioning of unsecured loans in excess of

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limits as specified by RBI in case of banks and in excess of limits as specified in Byelaws in case of other societies.

- 15) Exceeding the borrowing power as specified by Section 43 and Rule 35 of MCS Act.
- 16) Repaying the share capital by the contravening the Rule 23 of MCS Rules 1961.
- 17) No Action against overdue in excess of one year.
- 18) Transactions with relatives of Board of Directors, companies, firms in which directors are interested are not at the reasonable rates.

# AUDIT REPORT PART - A

**Format of Part A:-** The following are the major discrepancies found during the audit.

<b>Sr. no.</b>	<b>Particulars</b>	<b>Instances / Examples which require reporting</b>	<b>Auditor's remarks</b>
1	Fraud	1) Debiting excess amount as against the voucher amount / bill amount. 2) Withdrawing the amount from bank but not crediting in cash book	During the period under audit fraud of Rs.----- has been detected. The said fraud has been committed by using --- ----- modus operandi

<b>Sr. no.</b>	<b>Particulars</b>	<b>Instances / Examples which require reporting</b>	<b>Auditor's remarks</b>
1	Fraud	3) Debiting the bank account without depositing the amount in bank 4) Disbursing loans without sanction / without security / without loan documents / using forged documents	(without security / fabricated documents / false security, etc.). The following persons are responsible for fraud. 1.... 2... 3...

<b>Sr. no.</b>	<b>Particulars</b>	<b>Instances / Examples which require reporting</b>	<b>Auditor's remarks</b>
1	Fraud	5) any other transaction with the intention to defraud the society by any person.	If there is no fraud, the auditor should mention the following remarks. "During the audit period, we have not found any fraud". This remark is mandatory.
2	Misutilisati on of funds and	When the funds are not used by following due procedures, E.g.	During the audit period, funds and properties of societies



<b>Sr. no.</b>	<b>Particulars</b>	<b>Instances / Examples which require reporting</b>	<b>Auditor's remarks</b>
2	properties	<p>1) purchasing / constructing building without inviting the tenders</p> <p>2) purchasing the computers without inviting the tenders.</p> <p>3) selling the movable / immovable properties without inviting bids</p>	<p>are misutilised as under :-</p> <p>1...</p> <p>2...</p> <p>3...</p> <p>In case, there is no misutilisation of funds and properties, he should give following remarks.</p>

<b>Sr. no.</b>	<b>Particulars</b>	<b>Instances / Examples which require reporting</b>	<b>Auditor's remarks</b>
2		4) selling the movable / immovable properties below Reserve Price (Upset price)	<p>“During our audit period, we have not found any misutilisation of funds and properties”</p> <p>This remark is mandatory.</p>
3	Misapplication of funds	If the society raises funds for a particular purpose but uses them for another	During our audit period, we have found following misapplication of

Sr. no.	Particulars	Instances / Examples which require reporting	Auditor's remarks
3	Misapplication of funds	<p>purpose, then there is misapplication of funds. E.g.</p> <p>1) State Government has granted loan for construction of go-down, but it is used for payment of salary or other regular payments.</p>	<p>funds.</p> <p>1...</p> <p>2...</p> <p>3...</p> <p>If there is no misapplication of funds, auditor should make remark as under.</p>

Sr. no.	Particulars	Instances / Examples which require reporting	Auditor's remarks
3	Misapplication of funds	<p>2) Use of sinking fund for day-to-day maintenance without passing required resolution in General Body.</p> <p>3) Use of revenue reserve / general reserve for creating Reserve for Bad and Doubtful Debts.</p>	<p>“During our audit period, we have not found any misapplication of funds.”</p> <p>This remark is mandatory.</p>

<b>Sr. no.</b>	<b>Particulars</b>	<b>Instances / Examples which require reporting</b>	<b>Auditor's remarks</b>
3	Misapplication of funds	4) Not using Government share capital redemption fund for repaying Government debt / capital on due date.	
4	Manipulation of accounts	1) Crediting interest received account without the amount being actually realized, In	We have found following manipulation / window dressing of accounts during our

<b>Sr. no.</b>	<b>Particulars</b>	<b>Instances / Examples which require reporting</b>	<b>Auditor's remarks</b>
4	Manipulation of accounts	<p>contravention of Income Recognition Asset Classifaction (IRAC) norms.</p> <p>2) Loans shown to be recovered without actually being recovered by debiting new loan account.</p> <p>3) Window dressing of accounts. E.g. loan</p>	<p>audit period.</p> <p>1...</p> <p>2...</p> <p>3...</p> <p>If there is no manipulation of accounts, then auditor should give his remarks as under.</p> <p>“we have not found any manipulation of</p>

<b>Sr. no.</b>	<b>Particulars</b>	<b>Instances / Examples which require reporting</b>	<b>Auditor's remarks</b>
4	Manipulation of accounts	account debit deposit account credit without deposit actually being received.	accounts during our audit period” This remark is mandatory.
5	Falsification of accounts	1) Amount recovered from one party and credited to other party thereby showing incorrect position of state of	We have found the following falsification of accounts during our audit period. 1... 2...

<b>Sr. no.</b>	<b>Particulars</b>	<b>Instances / Examples which require reporting</b>	<b>Auditor's remarks</b>
5	Falsification of accounts	<p>affairs. E.g. A's account has become NPA. B's account is in PA category. Amount received from B is credited to A's account to conceal NPA.</p> <p>2) Showing stock items and value of stock when there is no stock in existence.</p>	<p>3...</p> <p>If there is no falsification of accounts, the auditor is required to give following remarks</p> <p>“During our audit period, we have not found any falsification of accounts”</p> <p>This remark is mandatory.</p>



<b>Sr. no.</b>	<b>Particulars</b>	<b>Instances / Examples which require reporting</b>	<b>Auditor's remarks</b>
6	Quantify shortfall in various provisions	<p>Society has shown net profit of Rs.1 crore and there is shortfall in following provisions.</p> <ol style="list-style-type: none"> <li>1) NPA provision Rs.60 lakh</li> <li>2) Overdue Interest provision Rs.40 lakh</li> <li>3) Bonus provision Rs.10 lakh</li> </ol>	<p>Considering total shortfall of Rs.115 lakh, society has incurred loss of Rs.15 lakh instead of Net profit of Rs.1 crore shown in the Profit and Loss account.</p> <p>If there are no shortfalls in</p>

<b>Sr. no.</b>	<b>Particulars</b>	<b>Instances / Examples which require reporting</b>	<b>Auditor's remarks</b>
6	Quantify shortfall in various provisions	4) Gratuity provision Rs.5 lakh	provisions, auditor should state "There are no shortfalls in any provisions" This remark is mandatory.
7	Serious infringement of provisions of Act,	1) Not holding Annual General Meeting before 30 <sup>th</sup> September as provided in MCS Act 1960	We have observed following infringement of provisions of Act, Rules and Byelaws

<b>Sr. no.</b>	<b>Particulars</b>	<b>Instances / Examples which require reporting</b>	<b>Auditor's remarks</b>
7	Rules, Byelaws and notification.	<p>2) Payment of dividend out of capital by not calculating net profit as per Rule 49 A.</p> <p>3) Not holding election even after completion of tenure of Board of Directors as per Section 73 (CB) (14)1.</p>	<p>1...</p> <p>2...</p> <p>3...</p> <p>If there are no infringements of Act, Rules, Byelaws and notifications, the auditor shall state "we have not found any infringement of provisions of Act,</p>

<b>Sr. no.</b>	<b>Particulars</b>	<b>Instances / Examples which require reporting</b>	<b>Auditor's remarks</b>
7	Rules, Byelaws and notification.	4) Receiving deposits from non-members / public by co-operative society as per Section 43(1). 5) Providing loans to non-members and to the persons residing out of area of operation as per Section 44.	Rules, Byelaws and notifications.

<b>Sr. no.</b>	<b>Particulars</b>	<b>Instances / Examples which require reporting</b>	<b>Auditor's remarks</b>
7		6) Investment of funds in contravention of Section 70. 7) Funds not to be used for proceedings filed or taken against officers in personal capacity as per Section 71 A 8) Not investing in Employees' Provident	

<b>Sr. no.</b>	<b>Particulars</b>	<b>Instances / Examples which require reporting</b>	<b>Auditor's remarks</b>
7		Fund as per Section 71. 9) Payment of dividend in excess of 15% as provided in Section 67. 10) Appropriation of net profit in contravention of section 65 (2) 11) Non-creation of Reserve fund as	

<b>Sr. no.</b>	<b>Particulars</b>	<b>Instances / Examples which require reporting</b>	<b>Auditor's remarks</b>
7		<p>provided in Section 66.</p> <p>12) Distribution of funds to the members in contravention of Section 64. E.g. Distributing certain amount as medical benefit to the members in addition to dividend.</p>	

<b>Sr. no.</b>	<b>Particulars</b>	<b>Instances / Examples which require reporting</b>	<b>Auditor's remarks</b>
7		<p>13) Exceeding the borrowing power as specified by Section 43 and Rule 35 of MCS Act.</p> <p>14) Repaying the share capital by the contravening the Rule 23 of MCS Rules 1961.</p>	
8	Misutilisati on of capital	Nonutilization of government loan	During the audit period, the society has



Sr. no.	Particulars	Instances / Examples which require reporting	Auditor's remarks
8	/ loan / grant received from Government.	received for construction of go-downs and using it for some other purpose.	received the government grant of Rs..... for ..... purpose and the same has been utilized for the same purpose. We have not found any misutilisation of government loan. This remark is mandatory wherever there is government loan / capital.

<b>Sr. no.</b>	<b>Particulars</b>	<b>Instances / Examples which require reporting</b>	<b>Auditor's remarks</b>
9	Personal expenses which are debited to Profit and loss account.	1) Telephone expenditure of personal nature of directors and staff paid by society. 2) Use of vehicle for personal purpose by directors and staff. 3) Advertisement expenses in personal nature	During the audit, it was observed that, telephone / vehicle expense of Rs..... incurred by the directors / staff has been debited to Profit and loss account. It is required to be recovered.

Sr. no.	Particulars	Instances / Examples which require reporting	Auditor's remarks
9		<p>4) Legal and Medical expenses.</p> <p>5) Use of society's property for personal purpose.</p> <p>6) Use of societies manpower for personal purpose.</p>	
10	Contravention of cash limits as per	Cash holding limit as per Rule 107 (c) for credit society is	During the audit, it has been observed that on the following

Sr. no.	Particulars	Instances / Examples which require reporting	Auditor's remarks
10	Rule 107 (c).	Rs.25,000/- and if actually cash maintained is more than Rs.25,000/- for more than 3 working days continuously.	days cash on hand exceeded the prescribed limit as per Rule 107 (c) If there is no contravention of cash limits, auditor shall state, "During the audit, we have not observed any contravention of Rule 107 (c)"

<b>Sr. no.</b>	<b>Particulars</b>	<b>Instances / Examples which require reporting</b>	<b>Auditor's remarks</b>
10			This remark is mandatory.
11	Payment in cash in excess of the limits laid down in the Income Tax Act as per Rule 107 (d).	As per Income Tax Act, any payment exceeding Rs.20,000/- should be paid only by account payee cheque. If any payments are made contravening the above provision,	It is observed that, following payments are made in cash contravening the provisions of Income Tax Act as per Rule 107 (d). If there is no

<b>Sr. no.</b>	<b>Particulars</b>	<b>Instances / Examples which require reporting</b>	<b>Auditor's remarks</b>
11		the same should be reported.	<p>contravention of cash payment, auditor shall state, "During the audit, we have not observed any contravention of Rule 107 (d)"</p> <p>This remark is mandatory.</p>
13	In case of banks,	The flat acquired by the bank under	During the audit, it has been observed

<b>Sr. no.</b>	<b>Particulars</b>	<b>Instances / Examples which require reporting</b>	<b>Auditor's remarks</b>
13	property sold under Securitization Act 2002 below Reserve Price.	Securitization Act 2002 has been sold for Rs.20 lakh when the Reserve Price was Rs.25 lakh	that, following assets have been sold below the Reserve Price. 1... 2... 3... If there is no sale below the Reserve Price, auditor shall state, "During the audit, we have not

<b>Sr. no.</b>	<b>Particulars</b>	<b>Instances / Examples which require reporting</b>	<b>Auditor's remarks</b>
13	property sold under Securitization Act 2002 below Reserve Price.	Securitization Act 2002 has been sold for Rs.20 lakh when the Reserve Price was Rs.25 lakh	observed any sale of property below Reserve Price” This remark is mandatory.
14	Contravention of unit exposure norms and	UCB has sanctioned loan of Rs.40 lakh when exposure limit was Rs.30 lakh.	During audit period, we have observed that, bank has sanctioned loan in



<b>Sr. no.</b>	<b>Particulars</b>	<b>Instances / Examples which require reporting</b>	<b>Auditor's remarks</b>
14	sectoral exposure norms in case of UCB, MSCB and DCCB.	Outstanding of this loan was Rs.45 lakh	<p>excess of exposure limit and limit was exceeded by Rs.10 lakh.</p> <p>If there is no contravention of unit and sectoral exposure, auditor shall state, "During the audit period, we have not observed any contravention of unit</p>

Sr. no.	Particulars	Instances / Examples which require reporting	Auditor's remarks
14			and sectoral exposure” This remark is mandatory.
15	Sanctioning of unsecured loans in excess of limits as specified by	Bank has sanctioned unsecured loans totaling Rs.130 crores. The limit as specified by RBI i.e. 10% of total asset as per last audited Balance Sheet	During the audit, we have observed that, the bank has sanctioned the following limit in contravention of RBI directions.

Sr. no.	Particulars	Instances / Examples which require reporting	Auditor's remarks
14			and sectoral exposure” This remark is mandatory.
15	RBI in case of banks and in excess of limits as specified in Byelaws in	is Rs.110 crores.	1... 2... 3... If there is no contravention of any of the RBI guideline regarding sanctioning

<b>Sr. no.</b>	<b>Particulars</b>	<b>Instances / Examples which require reporting</b>	<b>Auditor's remarks</b>
15	case of other societies.	is Rs.110 crores.	<p>exposure norms, auditor shall state, "During the audit, we have not observed any contravention of RBI guidelines regarding unsecured loans, exposure and any other guidelines"</p> <p>This remark is mandatory.</p>

<b>Sr. no.</b>	<b>Particulars</b>	<b>Instances / Examples which require reporting</b>	<b>Auditor's remarks</b>
17	Transactions with relatives of Board of Directors, companies, firms in which directors are interested	Computers are available in market for Rs.50,000/- per piece of a particular configuration, but were purchased from director's company for Rs.70,000/- per piece.	It has been observed that, the society has entered into transaction with the following companies in which directors or their relatives are interested and the transactions are made beyond reasonable price.

<b>Sr. no.</b>	<b>Particulars</b>	<b>Instances / Examples which require reporting</b>	<b>Auditor's remarks</b>
17	are not at the reasonable rates.		<p>1...</p> <p>2...</p> <p>3...</p> <p>If there are no such unreasonable transactions, auditor shall report, "During the audit, we have not observed any unreasonable transactions with directors and their relatives, companies and firms."</p> <p>This remark is mandatory.</p>

<b>Sr. no.</b>	<b>Particulars</b>	<b>Instances / Examples which require reporting</b>	<b>Auditor's remarks</b>
18	No Action against overdue in excess of one year.	For a prudent running of business of credit, the societies required to recover the money regularly and for any default exceeding one year require to take legal action. In case the society has failed to take such action, it affects the continuity	During the audit, we have observed that, society has not taken legal action for recovery in respect of following accounts even though they are in arrears for more than one year. 1) Sr.No. (2) A/c name (3) Amount overdue

<b>Sr. no.</b>	<b>Particulars</b>	<b>Instances / Examples which require reporting</b>	<b>Auditor's remarks</b>
18		of business and therefore the auditor needs to report such accounts where actions are not initiated which is detrimental to the interests of society.	(4) period of overdue.



