

Audit



(<https://www.entri.me>)



(<https://play.google.com/store/apps/details?id=me.entri.entri.me>)

1. **Which section of the Kerala Co-operative Societies Act, 1969, mandates the annual audit of the accounts of every registered society?**

A Section 62

B Section 63

C Section 64

D Section 65

Solution

- Section 63 of the KCS Act is titled "Audit."
- It is the fundamental statutory provision making the annual audit of every registered society's accounts mandatory.
- The audit ensures the accounts are properly maintained and exhibit a true and fair view of the society's state of affairs.
- The cost of the audit is borne by the society (Section 64).
- The audit must cover the transactions of the society for the entire Co-operative Year (ending March 31).

2. **The authority responsible for the audit of the accounts of a Co-operative Society under the KCS Act, 1969, is the:**

A Reserve Bank of India.

B Chief Executive of the society.

C **Registrar of Co-operative Societies.**

D Director of Public Accounts.

Solution

- Section 63(1) vests the responsibility for the audit entirely with the Registrar of Co-operative Societies.
- The Registrar organizes and controls a dedicated Co-operative Audit Wing for this purpose.
- The Registrar or a person authorized by him (the Auditor) must conduct the audit.
- This centralized system ensures uniformity and regulatory oversight in the audit process.
- The audit is distinct from any internal checks performed by the society.

3. **The audit of a society's accounts for a Co-operative Year must be completed within a period of:**

A Three months from the close of the Co-operative Year.

B Six months from the close of the Co-operative Year.

C One year from the close of the Co-operative Year.

D One month from the date of the General Body Meeting.

Solution

- Rule 64 of the KCS Rules (read with Section 63) specifies the time limit for completing the audit.
- The audit must be completed within six months from the close of the Co-operative Year (i.e., by 30th September).
- This deadline is crucial to ensure that the audited accounts are available for the Annual General Body Meeting (AGBM).
- Delay in audit completion may attract penalties (Section 94) on the responsible officers.
- The time limit is a measure of administrative efficiency.

4. **Under Section 63 of KCS Act, 1969, the audit shall include an examination of:**

A

Overdue debts, verification of cash balances, and valuation of assets and liabilities.

B

Only the cash book and ledger.

C

Only the share register.

D

The personal accounts of the members.

Solution

- Section 63(2) specifies the scope of the audit.
- The audit is comprehensive, covering all receipts, expenditures, and the overall financial health.
- Crucially, it includes the examination of overdue debts, the verification of cash balances, and the correct valuation of the society's assets and liabilities.
- The auditor must also examine all transactions to ensure they comply with the Act, Rules, and Bye-laws.
- This scope goes beyond mere arithmetic accuracy.

5. **The classification of a society (e.g., A, B, C, D, or E) based on its financial health is determined by the:**

A General Body

B Auditor

C Chief Executive

D Government

Solution

- Section 63(3) explicitly requires the auditor to state, in the audit report, whether the accounts show a true and fair view and the class in which the society may be placed.
- The society's classification (A, B, C, D, or E) is determined by the auditor based on criteria like net profit, working capital, and repayment performance.
- This classification is vital for determining the society's eligibility for funds and the level of regulatory scrutiny.
- It serves as a public declaration of the society's financial health.
- A 'D' or 'E' class society signifies weak or poor financial health.

6. **The cost of the audit of a society, as per Section 64, is generally borne by the:**

A Registrar

B Central Government

C Society itself

D Individual members

Solution

- Section 64 is titled "Levy of audit fee."
- It mandates that every society shall pay an audit fee (cost of the audit) to the Government.
- The fee is calculated based on the scale prescribed by the Rules, often linked to the society's Working Capital or Gross Income.
- The society is financially responsible for the audit conducted by the Registrar's department.
- The audit fee, if unpaid, can be recovered as an arrear of land revenue.

7. The Auditor has the power to summon, at the time of audit, any Officer, Agent, Servant, or Member of the society to provide:

A Personal guarantees for loans.

B Information and documents necessary for the audit.

C Financial assistance to the Auditor.

D A written oath of loyalty.

Solution

- The powers of the auditor are defined in Section 63(4).
- The auditor has the statutory authority to demand the production of books, accounts, securities, cash in hand, and all relevant documents.
- The auditor can also summon any connected person (Officer, servant, member) to provide necessary information or explanations.
- Failure to comply with the auditor's request is an offense liable to penalty (Section 94).
- This power ensures the audit is thorough and unimpeded.

8. The audit report submitted by the Auditor (Section 63) must specify any case of misappropriation, fraudulent retention of money, or material irregularity in the accounts. This is required to ensure:

A Prompt action against financial malpractice.

B The Registrar can give a bonus to the members.

C The Committee gets re-elected.

D The society's classification is lowered.

Solution

- The audit report is a crucial regulatory tool.
- The auditor has a duty to specifically highlight any instance of malpractice (misappropriation, fraud, irregularities).
- This enables the Registrar to initiate timely and necessary action, such as an inquiry (Section 65), surcharge proceedings (Section 68), or criminal prosecution.
- It serves as an early warning system for financial distress or crime.
- The auditor has a professional and statutory duty to report these findings.

9. If an audit reveals a deficit in cash of ₹ 5,000/- that cannot be accounted for, the auditor should immediately report this discrepancy to the:

A Nearest Police Station

B General Body

C Registrar

D Chief Executive

Solution

- Any significant irregularity, especially a cash deficit or suspected fraud, must be brought to the immediate notice of the Registrar.
- The Registrar is the administrative and regulatory head responsible for taking remedial action.
- The Registrar may then initiate a detailed inquiry (Section 65) or surcharge action (Section 68) to fix responsibility.
- This rapid reporting ensures the magnitude of the loss does not increase.
- The report forms the basis for subsequent legal action.

10. The audit fee (KCS Act, 1969 Section 64) is calculated primarily based on the society's:

A Number of employees

B Value of fixed assets

C Net profit

D Working Capital or Gross Income, as prescribed by the Rules

Solution

- Section 64 gives the Government power to levy an audit fee as prescribed by the Rules.
- The Rules typically link the fee structure to the society's financial magnitude—either its Working Capital or its Gross Income/Turnover.
- Larger, more complex societies require more audit time and thus pay a higher fee.
- This ensures an equitable distribution of the cost of the Co-operative Audit Wing.
- The fee is a statutory due payable to the Government.

11. The audit report, after submission to the Registrar, must be placed before the Annual General Body Meeting (AGBM) of the society:

A Only if there are serious irregularities

B In its entirety

C Only the summary provided by the Chief Executive

D After approval by the High Court

Solution

- Section 63(6) mandates that the audited statements and the audit report must be placed before the AGBM.
- The entire report must be presented to ensure transparency and democratic accountability to the members.
- The AGBM is the highest authority and must approve the audited accounts.
- The Committee is responsible for ensuring the report is presented.
- This allows members to question the Committee on the findings.

12. **The Auditor is generally appointed from the personnel of the:**

A Reserve Bank of India

B Private firms of Chartered Accountants

C Society's own staff

D Co-operative Audit Department under the Registrar

Solution

- The Registrar conducts the audit, typically through the Co-operative Audit Department officials.
- These officials are specially authorized by the Registrar to perform the audit function.
- While the Registrar can authorize a Chartered Accountant, the primary responsibility and mechanism rely on the departmental staff.
- This ensures that the auditors possess specialized knowledge of the Co-operative Act and Rules.
- The auditor acts as the Registrar's representative for this purpose.

13. If the Registrar authorizes a Chartered Accountant to conduct the audit (KCS Act, 1969 Section 63), the audit fee is still paid to the:

A Chartered Accountant directly

B Government

C Apex Bank

D Local Panchayat

Solution

- The authority to audit rests with the Registrar (Section 63), even if delegated to an external CA.
- The statutory requirement to pay the audit fee is to the Government (Section 64).
- The Government subsequently remunerates the CA as per the agreed terms.
- This maintains the regulatory control of the fee structure with the Government.
- The audit remains a state function, regardless of the person conducting it.

14. **The primary purpose of the Registrar setting the audit fee (KCS Act, 1969 Section 64) is to ensure the financial sustainability of the:**

A General Body's travel allowance

B Co-operative Audit Wing of the Government

C Society's canteen

D Private auditor's fees

Solution

- The audit fee collected under Section 64 is intended to cover the cost of the audit establishment maintained by the Government.
- This ensures that the dedicated Co-operative Audit Wing remains financially independent and sustainable.
- It is a form of regulatory cost recovery from the sector that benefits from the service.
- The audit fee is not a tax but a fee for service.
- This funding mechanism supports the entire statutory audit infrastructure.

15. If a society fails to facilitate the audit by providing the necessary records and information, the Registrar may impose a penalty of up to:

A ₹ 50,000/-

B ₹ 1,000/-

C ₹ 1,00,000/-

D ₹ 5,000/-

Solution

- Section 94 (Penalties) imposes a financial penalty for failure to produce documents or give information to the Registrar or a person authorized by him (like the Auditor).
- The penalty for such obstruction is generally a fine up to ₹ 1,000/-, and often a continuing daily fine.
- This penalty targets the officer responsible for the default.
- It reinforces the statutory power of the auditor (Section 63).
- The penalty is recovered as an arrear of land revenue.

16. **The statutory provision for bad and doubtful debts is scrutinized by the Auditor to confirm it is adequate based on the:**

A Share capital of the society.

B Registrar's annual salary.

C Age of the Committee members.

D

Classification of loans (Standard, Sub-standard, Doubtful, Loss) and Rules.

Solution

- Section 63(2) requires the auditor to examine overdue debts.
- The Rules prescribe specific norms for the classification of loans into categories (Standard, Sub-standard, etc.) based on their repayment history.
- The Auditor must ensure that the society has made adequate, mandatory provision for bad and doubtful debts as required for each category.
- Inadequate provisioning leads to an inflated net profit figure.
- This ensures financial realism in the accounts.

17. **The final authority to approve the audit fee scale (KCS Act, 1969 Section 64) payable by the societies is the:**

A Registrar

B Government

C State Co-operative Union

D General Body

Solution

- Section 64 states that the fee shall be paid at such rates and in such manner as may be prescribed.
- "Prescribed" in the Act means prescribed by the Rules (Section 2(j)), which are framed by the Government.
- Therefore, the State Government holds the final authority to determine the structure of the audit fee.
- The fee structure is published in the Gazette.
- The Registrar implements the scale fixed by the Government.

18. The Auditor's primary duty is to ensure the accounts exhibit a true and fair view. This term signifies that the financial statements are:

A Free from material misstatement and presented according to law.

B Based only on the Chief Executive's assurances.

C Guaranteed by the Government.

D Exactly the same as the previous year's figures.

Solution

- The concept of "true and fair view" is the fundamental principle of auditing (Section 63).
- It means the accounts are reliable, free from major errors or fraud, and are presented in compliance with the KCS Act, Rules, and Generally Accepted Accounting Principles (GAAP).
- It assures stakeholders that the financial position is accurately reflected.
- The auditor must explicitly state this opinion in the report.
- It is a qualitative assessment of the financial statements.

19. **The Auditor is required to specifically examine the transactions to ensure they are not contrary to the Bye-laws (KCS Act, 1969 Section 63). This is known as:**

A Financial Audit

B Systems Audit

C Performance Audit

D Propriety Audit

Solution

- Co-operative audit is fundamentally a propriety audit.
- The auditor must check if the transactions were conducted with due authority (Bye-laws, General Body/Committee resolutions) and were in the interest of the society.
- This goes beyond mere arithmetical check to ensure all expenditure is justified and legally authorized.
- Any transaction against the Bye-laws must be reported as an irregularity.
- This is a specialized function of the co-operative audit.

20. If the audit reveals that a society is suffering a loss and its classification falls to 'D' or 'E' (Section 63), the Registrar may initiate action under Section 68 or Section 69, or:

A Give a cash subsidy of ₹ 10,00,000/-.

B Initiate steps for the winding up of the society (Section 71).

C Increase the maximum dividend rate.

D Re-elect the Committee members immediately.

Solution

- A poor classification ('D' or 'E') indicates severe financial weakness, often requiring drastic measures.
- Based on the audit report, the Registrar may have grounds to order the winding up (liquidation) of the society under Section 71, as it may no longer be viable.
- The Registrar's decision is guided by the audit findings (Section 63).
- This is the ultimate regulatory consequence of persistent financial ill-health.
- The audit report thus triggers major regulatory actions.

21. **The audit certificate issued by the Auditor (KCS Act, 1969 Section 63) should confirm the correctness of the:**

A Net profit and distributable surplus for the year.

B General Body minutes.

C Personal bank accounts of the members.

D Registrar's travel expenses.

Solution

- A core function of the audit is to determine the true financial result.
- The audit certificate (a part of the report) must certify the correct figure of the net profit or loss.
- This certified figure is the basis for the subsequent appropriation of funds (Reserve Fund, Dividend) under Section 56 and 59.
- The distribution of any surplus must rely entirely on the audited figures.
- This ensures that dividends are not paid out of capital.

22. **The period covered by the annual audit (KCS Act, 1969 Section 63) is the:**

- A** Calendar Year (Jan 1 to Dec 31).
- B** Period of the Committee's tenure.
- C** Period from the last loan disbursement.
- D** **Co-operative Year (April 1 to March 31).**

Solution

- Section 63 mandates an annual audit. The statutory financial year for co-operatives is the Co-operative Year, which runs from 1st April to 31st March (Section 2(d)).
- The audit must cover all transactions within this specific 12-month period.
- All financial statements (Balance Sheet, Profit & Loss) are prepared based on this period.
- This aligns the audit cycle with the tax and financial reporting requirements.
- It is a fixed and uniform period for all societies.

23. **If a society is a Financing Bank, its audit is conducted under the KCS Act (Section 63) but is also subject to the inspection and regulatory control of the:**

A State Government only.

B National Co-operative Development Corporation (NCDC).

C District Collector.

D Reserve Bank of India (RBI).

Solution

- Co-operative banks, by transacting the business of banking, are under dual control.
- They are audited by the Registrar (Section 63) but their banking functions are regulated and inspected by the Reserve Bank of India (under the Banking Regulation Act, 1949).
- The audit must comply with the accounting and provisioning norms prescribed by the RBI.
- This dual oversight ensures financial prudence and stability in the banking sector.
- The Registrar and RBI often share information regarding the bank's audit status.

24. **The responsibility for making the books and accounts available to the Auditor (Section 63) rests primarily with the:**

A Chief Executive

B General Body members

C Registrar's office

D Government nominees on the Board

Solution

- The Chief Executive (Secretary/Manager) is the full-time functional head of the society.
- He/she is responsible for the day-to-day administration and, crucially, for maintaining the accounts and records.
- The CE must cooperate fully with the Auditor by making all requested documents available (Section 63(4)).
- Failure to do so makes the CE personally liable for penalties (Section 94).
- The Committee has the overall supervisory responsibility.

25. The audit fee for a society having a Working Capital of ₹ 50,00,000/- would be charged according to the scale prescribed in the Rules, and the minimum amount payable could be ₹ 2,000/- or more, which is charged to the society's:

A Working expenses

B Share Capital Account

C Reserve Fund

D Member's individual savings account

Solution

- The audit fee is an operational expense of the society (Section 64 context).
- All working expenses, including the audit fee, must be charged to the Profit and Loss Account before the calculation of the net profit.
- The fee is a mandatory cost of maintaining the registration.
- Charging it to the P&L account ensures the net profit is correctly determined after covering all legal costs.
- It is a recurring annual expense.

26. If the Auditor discovers a Committee member has sanctioned a loan of ₹ 1,00,000/- against the Bye-laws, the Auditor must report it as a:

A Minor discrepancy

B Material irregularity

C Simple procedural error

D Recommended expenditure

Solution

- A transaction that violates the Bye-laws (e.g., sanctioning a loan beyond the Committee's limit) is a material irregularity.
- Section 63(2) requires the auditor to examine whether the transactions were contrary to the Bye-laws and report any material irregularity.
- This finding can lead to surcharge proceedings (Section 68) against the Committee member for the loss caused.
- The term 'material' means it is significant enough to influence the view of the accounts.
- The reporting triggers the regulatory process.

27. The Auditor's certificate should comment on whether the society has fully complied with the statutory requirement of maintaining a Reserve Fund of 25% of the net profit (Section 56) by stating any:

A Recommendations for new business

B Failure to appropriate the required amount

C Suggestions for loan disbursement

D Changes in the Registrar's office

Solution

- The audit includes a compliance check on the appropriation of profits.
- The auditor must verify that the mandatory 25% of net profit has been transferred to the Reserve Fund (Section 56).
- Any failure or short appropriation is a serious statutory irregularity and must be reported (Section 63).
- The auditor ensures that the funds are not illegally distributed to members.
- This is a critical regulatory check on financial prudence.

28. **The Auditor's recommendation for the classification of the society (e.g., 'B' class) becomes final upon approval by the:**

A General Body

B Registrar

C Chief Executive

D Director of Public Accounts

Solution

- The Auditor proposes the classification (Section 63(3)), but the Registrar has the final statutory authority to approve the classification.
- The Registrar can modify the classification if the auditor's basis is deemed incorrect.
- The approved classification is officially communicated and determines the society's regulatory status.
- The classification is an administrative tool used by the department.
- It is included in the final audit report presented to the AGBM.

29. **The Auditor may recommend the write-off of a bad debt of ₹ 10,000/- in the audit report, but the final sanction for this write-off must be obtained from the:**

A Committee of Management

B Registrar

C General Body

D Finance Minister

Solution

- The Auditor identifies debts as bad, but the write-off (adjusting the loss against the Reserve Fund) requires regulatory approval.
- Utilization of the Reserve Fund (Section 56) for writing off bad debts requires the prior sanction of the Registrar.
- The Auditor's recommendation in the report is the necessary first step.
- The Registrar controls the proper utilization of the statutory funds.
- This ensures capital erosion is properly monitored.

30. If the Registrar finds the audit report (Section 63) to be unsatisfactory or incomplete, the Registrar has the power to:

A Reclassify the society to 'E' immediately

B Conduct a fresh audit or direct the original auditor to rework the report

C Impose a fine of ₹ 10,00,000/- on the General Body

D Cancel the election of the Committee

Solution

- The Registrar is the principal authority (Section 63(1)) and can reject an unsatisfactory audit.
- The Registrar can exercise the power to ensure a proper audit is done, which includes ordering a fresh audit or demanding a revision/rework of the existing report.
- The quality and completeness of the audit report are essential for regulatory action.
- The Registrar aims to ensure a "true and fair view."
- This power maintains the integrity of the audit process.



<https://www.entri.me>



<https://play.google.com/store/apps/details?id=me.entri.entri.me>