



COOPERATIVE DEVELOPMENT AUTHORITY

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106-91



MEMORANDUM CIRCULAR NO. 2024 - 11
Series of 2024

SUBJECT: GUIDELINES ON EXAMINATION OF CREDIT SURETY FUND COOPERATIVES

Pursuant to Sec. 19 (b)(4) of RA 10744, Sec. 5 (b)(d), Rule 2 of the Implementing Rules and Regulations of RA 10744, Art. 121 (5)(7) of RA 9520, and Sec. (4)(n) of RA 11364, the Authority prescribes the following Guidelines governing the examination of Credit Surety Fund (CSF) Cooperatives.

Section 1. Title

The issuance shall be known as the "Guidelines on Examination of Credit Surety Fund Cooperatives"

Section 2. Statement of Policy and Objectives

The State recognizes the need to foster national development, promote inclusive growth, and reduce poverty by promoting the growth of micro, small, and medium enterprises (MSMEs) that facilitate local job creation, production, and trade. Moreover, the State affirms its declared policy to encourage the creation and growth of cooperatives as a practical vehicle for promoting self-reliance for attaining economic development and social justice.

To realize these objectives, the State shall encourage and assist in the creation and registration of CSF Cooperatives to provide MSMEs, cooperatives, and nongovernment organizations (NGOs) with more inclusive access to bank credit, thereby enhancing their sustainability and growth.

In line with this policy objectives, the Cooperative Development Authority shall examine CSF Cooperatives to enforce and monitor their compliance with the CSF Act, Rules and Regulations, and applicable guidelines, thereby pursuing its mission of ensuring a viable, sustainable, socially responsive, and globally competitive cooperatives.

Section 3. Definition of Examination

The term "Examination" shall refer to the probing of a particular area/aspect of the CSF Cooperative's operations and/or its member-cooperative's CSF-related transactions, through scrutiny of documents and financial and non-financial records, interview with directors, officers and personnel and ocular inspection to the place of business of the member-cooperatives.

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Section 4: Purpose of the Examination

An examination shall be conducted for the following purposes:

- a. check if the CSF Cooperative's operation is safe and sound;
- b. assess the effectiveness of the CSF Cooperative's compliance function to ascertain that it is operating in accordance with RA 10744, its IRR and other pertinent laws and regulations;
- c. determine the enforcement and adequacy of the CSF Cooperative's own policies and procedures;
- d. assess the overall risk profile of the CSF Cooperative; and
- e. advise corrective action when a particular situation or circumstance deemed it necessary

Section 5. Commencement of Examination

An examination shall be considered upon the receipt of any of the following:

- a. recommendation from the Team of Inspectors;
- b. adverse result of the evaluation of the CSF Cooperative's monitoring report;
- c. letter-complaint; and
- d. request or directive from other government agencies

The aforementioned shall be evaluated for their merits. Examination of the CSF Cooperative's operations and/or its member-cooperative's CSF-related transactions shall be commenced if:

- a. The Restricted Capital for Surety (RCS) is at risk; or
- b. The members may withdraw their contribution/membership with the CSF Cooperative; or
- c. The registration of the CSF Cooperative with the Authority may be revoked; or
- d. The CSF Cooperative may no longer carry out the purpose for which it is created; or
- e. Other meritorious circumstances as determined by the Authority

Section 6. Scope of Examination

The conduct of examination shall be limited to the particular area/aspect of the CSF Cooperative's operations and its member-cooperative's CSF-related transactions, as necessary, in consonance with Section 5.

Section 7. Composition of the Team of Examiners

The examination of the CSF Cooperative shall be conducted by the authorized Team of Examiners composed of at least three (3) CSF personnel from the Inspection and Examination Division of the Credit Surety Fund Service and Credit Surety Fund Section of the Regional Extension Office having jurisdiction over the CSF Cooperative. The composition should be in odd number at all times.

The CDA Regional Extension Office may request the assistance of the concerned Cooperative Development Office of the Local Government Unit in the conduct of examination espoused under Republic Act No. 11364, Republic Act No. 11535 and DILG and CDA Joint Memorandum Circular No. 2019-01.

All examiners shall be bound by the principle of independence and confidentiality in the conduct of examination.

Section 8. Authority of the Team of Examiners

The duly authorized Team of Examiners shall have the following powers and authority:

- a. Require the presentation or submission of vital reports, documents, and records to ascertain the facts relative to the subject matter of the examination;
- b. Assess CSF Cooperative's compliance with laws, rules and regulations, and issuances;
- c. Conduct interviews of directors, officers, personnel of the CSF Cooperative and/or of its cooperative-member/s and their MSME members;
- d. Visit the place of conduct of business, office, warehouse, etc. of the cooperative-member and/or their MSME-members;
- e. Verify, review, and evaluate documents and records, including making copies of such records; and
- f. Do other acts deemed necessary in the conduct of examination

Section 9. Pre-Examination Preparation

A. Issuance of Special Order for Team of Examiners

The Team of Examiners shall be identified and issued with Special Order by the Administrator of the Authority. The Special Order shall contain the name of the examiners, authority granted, purpose for which the examination is conducted and the duration thereof.

B. Developing an Examination Plan

After reviewing the available background information and proofs or evidences submitted by the Teams of Inspectors or complainant on the subject matter for examination, the Team of Examiners shall prepare a comprehensive plan to define examination objectives or purpose, scope, tasks, procedures, resources required to fulfill the objectives and examination schedule.

C. Notice of Examination

A notice of examination shall be sent to the CSF Cooperative through its Board of Directors at least fourteen (14) days before the Examination through any means of communication (personal service, regular/registered mail or electronic means).

The Notice shall contain the following:

- a. The names of the duly authorized examiners;
- b. The period of the examination;
- c. The scope/subject matter of the examination;
- d. The necessary documents or records pertaining to the purpose/s of the examination; and
- e. The names of the directors, officers, personnel of the CSF Cooperative and/or of its cooperative-member/s and their MSME members to be interviewed

Section 10. Conduct of Examination

A. Opening Conference

At the opening conference, the Team Leader shall provide the name of the duly authorized examiners and their authority, the purpose, scope, duration, and the procedure of the Examination. The Team Leader shall also inform the CSF Cooperative of the ocular visit to be done at the place of business of member-cooperative, if included in the Examination Plan and the name of directors, officers or personnel of the cooperative-member and/or its MSME member/s to be interviewed.

The CSF Cooperative shall be given an opportunity to seek clarification on any matter or area pertaining to the examination.

B. Examination Proper

The conduct of examination shall be in accordance with the Examination Plan developed and authority granted for the purpose cited in Section 8. In case of deviation, i.e., additional area/aspect of operations to be examined which is essential to the objective of the examination, the Team Leader shall inform the Board of Directors of the CSF Cooperative of the changes and the reason/s for the said deviation.

C. Documentation

Documentation of an examination is the responsibility of the Team of Examiners. It serves to preserve the actual conditions existing at the time of examination so that evidence can be examined objectively. Documentation may refer to all printed information and electronic media produced, copied, or taken by examiners as evidence/s. Forms of documentation include the notes, statements, photographs, videotapes, drawings, maps, printed matter, copies of records, digital recording, etc.

D. Exit Conference

To achieve the most effective results of the examination, the Team of Examiners shall conduct an exit conference with the CSF Cooperative's officers and employees to discuss findings and provide recommendations as necessary. The CSF Cooperative shall likewise be given an opportunity to refute the findings of the Team of Examiners. If the CSF Cooperative shall be able to present substantial proofs that said findings are untrue or were already addressed, said findings shall not be included in the examination report.

Section 11. Examination Report

The Team of Examiners shall prepare and submit a report on the examination conducted to the CSF Cooperative to the Administrator of the Authority.

The report shall contain the following information:

- a. Objectives of the examination;
- b. Names of key informants;
- c. Background information that leads to the examination;
- d. Narration of facts;
- e. Findings and their basis; and
- f. Recommendations

Within thirty (30) days after the exit conference, the Team of Examiners shall provide the CSF Cooperative with a copy of the examination report and require them to submit a written response within thirty (30) business working days after receipt of the written report.

The examination report shall form part of the official records of the CSF cooperative in the Authority and such report shall not be disposed of within five (5) years from the date of approval by the Administrator.

If the examination report contains information or documents subject to litigation, it shall be included in the Authority's Permanent File and should not be disposed of.

The government agency/complainant which/who requested for the examination shall be apprised of the results of the examination relative to their concern.

Section 12. Post-Examination Procedures

In the event that the Team of Examiners identified violations or offenses by the CSF Cooperative and/or its directors or officers in their examination report, they may recommend the following:

For the CSF Cooperative

1. involuntary dissolution proceedings, payment of actual compensatory, exemplary, nominal, temperate, and/or moral damages or imposition of other appropriate sanction/s as provided in the CDA Omnibus Rules of Procedures after due process

For the Erring Directors and Officers

1. an investigation or inquiry to determine whether or not the violations and other findings stated in the examination report may warrant the imposition of appropriate sanctions as provided in the CDA Omnibus Rules of Procedures; or
2. suspension, removal from office, payment of actual compensatory, exemplary, nominal, temperate, and/or moral damages or imposition of other appropriate sanction/s as provided in the CDA Omnibus Rules of Procedures after due process

Section 13. Prohibited Acts or Omissions

Consistent with Rule 29, Section 1 of RA 10744 and Article 140 of RA 9520, any responsible officer or employee of the cooperative may be sanctioned for the following violations:

- a. Omission or refusal to furnish any information, report, or other document required under RA 10744 and RA 9520, their IRR and other issuances;
- b. Providing information, reports, or other documents to the Authority that the persons responsible know to be false or misleading;
- c. Omission or refusal to keep a book or register or to make entry required under RA 10744 and RA 9520, their IRR and other issuances;

- d. Making an entry required under RA 10744 and RA 9520, their IRR and other issuances in a book or register that the persons responsible know to be false or misleading;
- e. Hindering an authorized examiner from making an examination required by law;
- f. Failure to comply with an order or written instruction issued or given by the Authority;
- g. Violation of the provisions regarding transactions with a restricted party; and
- h. Abetting, counseling, allowing, authorizing, or commanding another person to commit an offense punishable by RA 10744, RA 9520, their IRR and other issuances.

Provided, that in case the violator is a cooperative or juridical person, the penalty shall be imposed on its directors and officers. The pertinent provisions of RA 10744, RA 9520 their IRRs and Omnibus Rules of Procedure insofar as penalties on prohibited acts or omissions shall be enforced.

Section 14. Separability Clause

If any provision of this Circular is held to be unconstitutional, the other parts hereof shall continue to be in full force and effect.

Section 15. Effectivity Clause

The Memorandum Circular shall take effect fifteen (15) days after its publication in the Office of the National Administrative Registry (ONAR) or Official Gazette.

Approved per Board of Administrators Resolution No. 313, Series of 2024 dated April 16, 2024.

Issued this 14th day of May 2024.

By the Board of Directors:

USEC. JOSEPH B. ENCABO
Chairperson

