

Audit of Co-Operative Societies

13.1 Introduction

The Co-operative Societies Act, 1912, a Central Act, contains the fundamental law regarding the formation and working of the co-operative societies in India and is applicable in many states with or without amendments. In many states, viz., Maharashtra, West Bengal, Orissa, the co-operative societies are governed by specific state Acts. An auditor of a co-operative society should be familiar with the provisions of the particular Act governing the society under audit.

A co-operative society is a business organisation with a special mode of doing business, by pulling together all the means of production co-operatively, elimination of middlemen and exploitation from outside forces.

Co-operative organisations are also forging ahead in large scale, industries such as sugar mills, oil mills, paper and pulp industries, spinning and weaving mills and distilleries. However, inspite of this growing phase of co-operative sector, it is comparatively a weaker sector as compared to corporate sector in the sphere of management, skilled personnel, sophisticated modern equipment, systems of accounting, internal control, internal audit and obviously profitability.

A chartered accountant has to play a significant role in the development of co-operative organisations on scientific lines. In this Unit, it is proposed to give a few guide lines in the matter of audits of co-operative societies. Apart from audit some other professional services such as (1) guidance in accounts writing, (2) installation of accounting system, (3) internal audit, (4) management accounting services, (5) taxation etc. could be rendered by chartered accountants. However, the main focus is to give some guidelines about the audit of co-operative societies in general. The special features of audit applicable to all societies will be considered first, and subsequently a few special points with reference to audit programmes of specific types of societies will be considered.

13.1.1 Audit as per Section 17 of the Co-Operative Societies Act, 1912

- (1) The Registrar shall audit or cause to be audited by some person authorised by him by general or special order in writing in this behalf the accounts of every registered society once at least in every year.
- (2) The audit under sub-section (1) shall include an examination of overdue debts, if any, and a valuation of the assets and liabilities of the society.
- (3) The Registrar, the Collector or any person authorised by general or special order in writing in this behalf by the Registrar shall at all times have access to all the books,

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accounts, papers and securities of a society, and every officer of the society shall furnish such information in regard to the transactions and working of the society as the person making such inspection may require.

"Registrar" means a person appointed to perform the duties of a Registrar of Co-operative Societies under this Act.

13.2 Auditor and Management

According to the nature of particular co-operative society the auditor will have to examine in general the pattern of management, delegation of authority and fixation of responsibilities. The examination of minute books will reveal important policy decisions taken by management. The Board of Directors is the chief executive body and the minute book recording the minutes of its meetings is the main evidence for an auditor to go through the entity's management decisions. The auditor should see how far these decisions are in line with co-operative principles, interest of members, the provisions in the respective co-operative law of the State applicable to the society; and lastly the provisions of bye-laws of the society. The Central Co-operative Societies Act, 1912 does not contain any direct provisions relating to the management and meetings. As such for the sake of guidance and reliance, regard shall be had to the respective Co-operative Societies Act. For instance, according to Section 72 of Maharashtra State Co-operative Societies Act, 1960 (as amended upto 1978) the management of every society shall vest in a Committee constituted in accordance with the Act and rules and bye-laws. The Committee shall exercise such powers and perform such duties as may be imposed by the Act. Some of the powers are delegated by the general body to the managing committee. The auditor should see in this case which powers and functions are delegated, and whether they are properly discharged. For the purpose of proper functioning and to have an effective division of labour, different sub-committees may be formed such as purchase committee, sales committee, price fixation committee, stock valuation committee etc. in case of a co-operative consumers stores. In case of co-operative credit societies and urban banks, committees like loan committee, recoveries and legal suits committee etc. may be formed. The auditor should watch whether they are functioning effectively through the proceedings of the minutes recorded separately. The managing committee elects a chairman, who is in charge of general administration; other administrative officers are Managing Director, Manager or Secretary according to the nature of the society. The administrative functions of a managing committee include the following:

- (1) Proper custody and maintenance of movable and immovable properties belonging to the society.
- (2) Proper maintenance of accounts relating to receipts and payments of the society, through its accounting staff.
- (3) To summon and attend all the meetings including Annual General Meeting and to record the proceedings of the meetings in a proper minute book.
- (4) To keep all the necessary registers and records required by the Co-operative Societies Act and Rules and bye-laws of the society.

Generally in case of co-operative organisations the management is not manned by professional managers and as such the auditor of a co-operative society could play a constructive role in the capacity as a guide, friend and an adviser to the society. The auditor should see that the actions of managing committee are not inconsistent with the resolutions passed by the meetings of general body and managing committee, provisions of Co-operative Societies Act and rules and bye-laws of the society.

The following points should be kept in mind in connection with the audit of a co-operative society:

1. Qualifications of Auditors - Apart from a chartered accountant within the meaning of the Chartered Accountants Act, 1949, some of the State Co-operative Acts have permitted persons holding a government diploma in co-operative accounts or in co-operation and accountancy as also a person who has served as an auditor in the co-operative department of a government to act as an auditor.

2. Appointment of the Auditor - An auditor of a co-operative society is appointed by the Registrar of Co-operative Societies and the auditor so appointed conducts the audit on behalf of the Registrar and submits his report to him as also to the society. The audit fees are paid by the society on the basis of statutory scale of fees prescribed by the Registrar, according to the category of the society audited. For example, the audit fees of co-operative credit society and Urban Co-operative Banks are to be calculated with reference to working capital at the prescribed rates. 'Working Capital' here means funds at the disposal of the society inclusive of paid up share capital, funds built up out of profits and monies raised by borrowing and by other means.

3. Books, Accounts and other records of Co-operative Societies - Under section 43(h) of the Co-operative Societies Act, a state government can frame rules prescribing the books and accounts to be kept by a co-operative society.

For example In Maharashtra the co-operative societies are required to maintain cash book, general ledger, personal ledger, stock register, property register, etc. It is very much clear that requirement under State Acts resembles the provisions made under Section 209 of the Companies Act, 1956. The books of account required to be maintained in terms of the instructions of the Registrar are in respect of the following:

- (i) All sums of money received and expended by the society and the matters in respect of which receipts and expenditure take place.
- (ii) All sales and purchases of goods by the society also an account of stock-in-hand.
- (iii) Assets and liabilities of the society. It may be understood that such of the books as are relevant to the nature of the society would be required to be maintained, for example, a credit society cannot be expected to maintain books of account for sale and purchase of goods.

In order to maintain proper financial accounting records so as to disclose full financial results of working of the society, the statutory or mandatory provisions provide a directive, but they are not conclusive. The society is at liberty to maintain such additional records according to its

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convenience and which it thinks more useful for clarity and detailed explanation. Ultimately the financial transactions and the results thereof must be presented very clearly and in a the best possible manner. The cash book may be divided in suitable columns so as to indicate specific main heads of expenses and receipts, and a proper distinction between capital and revenue is brought out. The stock register should be maintained in such a manner that an up-to-date account of receipts, issues and balances of stock at any time is capable of being disclosed. In co-operative consumer's stores, a register of excesses and shortages should be maintained and a standard percentage of shortages beyond, say one bag of 100 kg. of grain should be pre-determined by means of practical experience. This may be useful to ascertain whether actual shortage is normal or abnormal. In case of co-operative consumers stores and manufacturing societies this is absolutely essential. Perpetual inventory records based on proper costing method should be maintained by co-operative manufacturing concerns like sugar and cloth mills. These records must be maintained in such a manner so as to have an up to date control over movement of materials and avoid wastages and losses in production.

Property and Investment Register - The property register refers to the register of immovable and movable properties belonging to the society. The register should give details regarding brief description of assets such as situation, make, date of acquisition, cost price, depreciation provided up-to-date etc. The register may be kept on the lines of Fixed Assets Register in case of a limited company as no specific form of register is prescribed under the Co-operative Societies Act. In case of investment held by the society, an investment register should be maintained by the society giving all the needed details such as cost price, face value, market value, interest due dates, interest realised, sales, purchases, profit or loss on sales, purchases etc.

Fixed Deposits Register - In case of Urban Co-operative Banks and credit societies accepting deposits from members, a fixed deposit register should be maintained showing all the particulars such as date of acceptance, date of maturity, interest due date, repayment etc.

Surety Register - In case of co-operative credit societies loans are granted to members as per regulations in that behalf in the bye-laws of the society. These loans are given against the personal security of the debtor, in addition to a surety or guarantee given by two members. In order to keep a watch on the number of borrowers for whom a person has stood surety, this register would be of immense help. The bye-laws prescribe the limit of surety by a person depending on his financial position, shareholding etc.

Depending upon the nature and object of the society, different kinds of books and registers will be maintained, so as to disclose a proper and fair picture of financial transactions. In case of large scale co-operative organisation, different subsidiary books and registers shall be maintained and the daily summary totals will be transferred to main Cash Book. For example:

- (a) Daily cash sales summary register.
- (b) A register of collection from debtors if credit sales are allowed by bye-laws of society.
- (c) A register of recovery of loans from salaries and directly by receipts from members in case of credit society.
- (d) Loan disbursement register in case of credit society.
- (e) Any other columnar subsidiaries depending upon the nature and functions of society.

4. Restrictions on share holdings - According to Section 5 of the Co-operative Societies Act, 1912, in the case of a society where the liability of a member of the society is limited, no member of a society other than a registered society can hold such portion of the share capital of the society as would exceed a maximum of twenty percent of the total number of shares or of the value of shareholding to Rs. 1,000/-. The auditor of a co-operative society will be concerned with this provision so as to watch any breach relating to holding of shares. One should also watch whether any provision in the bye-laws of the society is not contrary to this statutory position. The State Acts may provide limits as to the shareholding, other than that provided in the Central Act.

5. Restrictions on loans - A registered society shall not make a loan to any person other than a member. With the special sanction of the Registrar, a registered society may make a loan to another registered society (Section 29). The State Government may further put such restrictions as it thinks fit on the loaning powers of the society to its members or to other societies in the interest of the society concerned and its members.

6. Restrictions on borrowings - A registered society may accept loans and deposits from its members and others subject to the restrictions and limits of the bye-laws of the society. The auditor will have to examine the bye-laws in this respect (Section 30).

7. Investment of funds - According to Section 32 of the Central Act the modes of investment of funds of a society may be stated as follows. A society may invest its funds in any one or more of the following:

- (a) In the Central or State Co-operative Bank.
- (b) In any of the securities specified in Section 20 of the Indian Trusts Act, 1882.
- (c) In the shares, securities, bonds or debentures of any other society with limited liability.
- (d) In any co-operative bank, other than a Central or State co-operative bank, as approved by the Registrar on specified terms and conditions.
- (e) In any other moneys permitted by the Central or State Government.

The principal provision relating to the investments of funds of a co-operative society, the Central as well as State Acts does not mention anything about the investment of reserve fund outside the business specifically.

8. Appropriation of profits - Section 33 of the Central Act states that 25% of the profits should be transferred to Reserve Fund, before distribution as dividends or bonus to members. However, having regard to the financial position of the society, the Registrar may reduce the percentage of transfer, but in any case not less than 10%. Generally in case of newly started salary earners' credit societies this liberal view is taken.

9. Contributions to Charitable Purposes - According to Section 34, a registered society may, with the sanction of the Registrar, contribute an amount not exceeding 10% of the net profits remaining after the compulsory transfer to the reserve fund for any charitable purpose as defined in section 2 of the Charitable Endowments Act, 1890.

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10. Investment of Reserve Fund outside the business or utilisation as working capital-

Some of the State Acts provide that a society may use the Reserve Fund:

- (a) in the business of a society, as working capital (subject to the rules made in this behalf).
- (b) may invest as per provisions of the Act.
- (c) may be used for some public purposes likely to promote the object of the society.

The auditor should ensure strict compliance with the State Act and Rules in this regard.

11. Contribution to Education Fund - Some of the State Acts provide that every society shall contribute annually towards the Education Fund of the State Federal Society, at the appropriate rate as per the class of the society. Contribution to Education Fund is a charge on profits and not an appropriation.

Apart from statutory provisions relating to Reserve Fund, the auditor may have regard to the provisions in bye-laws and Rules and Regulations of the society regarding the appropriation of profits. Transfers to other reserves, dividends to members etc. are the other appropriations. Appropriations of profits must be approved by the General Body of the society, which is the supreme authority in the co-operative management. Further, it may be noted that necessary accounting entries for the appropriation of profits must be passed after the date of approval by the General Body. Here there is a departure from corporate accounting practice, where entries are passed for proposed appropriations, subject to approval of Annual General Meeting.

According to certain State Acts, transfers to Dividend Equalization Reserve and Share Capital Redemption Fund are stated as charges against profits. According to the generally accepted principles of accountancy these items are not charges, but appropriation of profits. The auditor should point out such spots where statutory provisions of any law are in contradiction with the generally accepted accounting principles.

13.3 Special Features of Co-Operative Audit

The general processes of auditing involved in audit work such as checking of posting, ascertainment of arithmetical accuracy, vouching, verification of assets and liabilities and final scrutiny of Balance Sheet are well known to the students, and the same are to be applied in co-operative audit as well. It need not be discussed in detail. However, the special features of co-operative audit, to be borne in mind in general while conducting the audit are as follows:

1. Examination of overdue debts - Overdue debts for a period from six months to five years and more than five years will have to be classified and shall have to be reported by an auditor. Overdue debts have far reaching consequences on the working of a credit society. It affects its working capital position. A further analysis of these overdue debts from the viewpoint of chances of recovery will have to be made, and they will have to be classified as good or bad. The auditor will have to ascertain whether proper provisions for doubtful debts are made and whether the same is satisfactory. The percentage of overdue debts to the working capital and loans advanced will have to be compared with last year, so as to see whether the trend is increasing or decreasing whether due and proper actions for recovery are taken, the position regarding cases in co-operative courts, District Courts etc. and the results thereof.

2. **Overdue Interest** - Overdue interest should be excluded from interest outstanding and accrued due while calculating profit. Overdue interest is interest accrued or accruing in accounts, the amount of which the principal is overdue. In practice an overdue interest reserve is created and the credit of overdue interest credited to interest account is reduced.

3. **Certification of Bad Debts** - A peculiar feature regarding the writing off of the bad debts as per Maharashtra State Co-operative Rules, 1961, is very interesting to note. As per Rule No. 49, bad debts can be written off only when they are certified as bad by the auditor. Bad debts and irrecoverable losses before being written off against Bad Debts Funds, Reserve Fund etc. should be certified as bad debts or irrecoverable losses by the auditor where the law so requires. Where no such requirement exists the managing committee of the society must authorise the write-off.

4. **Valuation of Assets and Liabilities** - However, regarding valuation of assets there are no specific provisions or instructions under the Act and Rules and as such due regard shall be had to the general principles of accounting and auditing conventions and standards adopted. The auditor will have to ascertain existence, ownership and valuation of assets. Fixed assets should be valued at cost less adequate provision for depreciation. The incidental expenses incurred in the acquisition and the installation expenses of assets should be properly capitalised. If the difference in the original cost of acquisition and the present market price is of far reaching significance, a note regarding the present market value may be appended; so as to have a proper disclosure in the light of present inflatory conditions. The current assets be valued at cost or market price, whichever is lower. Regarding the liabilities, the auditor should see that all the known liabilities are brought into the account, and the contingent liabilities are stated by way of a note.

5. **Adherence to Co-operative Principles** - The auditor will have to ascertain in general, how far the objects, for which the co-operative organisation is set up, have been achieved in the course of its working. The assessment is not necessarily in terms of profits, but in terms of extending of benefits to members who have formed the society. Considered from the viewpoint of social benefits it may be looked into that how far the sales could be effected at lower prices. For the achievement of these activities, cost accounting methods, store control methods, techniques of standard costing, budgetary control etc. should be adopted. However, these modern techniques are mostly not in application and as such in practice a wide gap is found in the goals to be achieved and the actual achievements. While auditing the expenses, the auditor should see that they are economically incurred and there is no wastage of funds. Middlemen commissions are, as far as possible, avoided and the purchases are made by the committee members directly from the wholesalers. The principles of propriety audit should be followed for the purpose.

6. **Observations of the Provisions of the Act and Rules** - An auditor of a co-operative society is required to point out the infringement with the provisions of Co-operative Societies Act and Rules and bye-laws. The financial implications of such infringements should be properly assessed by the auditor and they should be reported. Some of the State Acts contain restrictions on payment of dividends, which should be noted by the auditor. For example, under the Maharashtra State Act, the maximum rate of dividend prescribed is 12% but the

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dividend distributable in cash should not exceed 6% and the balance of 3% in excess of it should be credited to individual share capital accounts of members.

7. Verification of Members' Register and examination of their pass books - Examination of entries in members pass books regarding the loan given and its repayments, and confirmation of loan balances in person is very much important in a co-operative organisation to assure that the entries in the books of accounts are free from manipulation. Specifically in the rural and agricultural credit societies, members are not literate and as such this is a good safeguard on their part. Of course this checking will be resorted to on a test basis, which is a matter of judgement of the auditor.

8. Special report to the Registrar - During the course of audit, if the auditor notices that there are some serious irregularities in the working of the society he may report these special matters to the Registrar, drawing his specific attention to the points. The Registrar on receipt of such a special report may take necessary action against the society. In the following cases, for instance a special report may become necessary:

- (i) Personal profiteering by members of managing committee in transactions of the society, which are ultimately detrimental to the interest of the society.
- (ii) Detection of fraud relating to expenses, purchases, property and stores of the society.
- (iii) Specific examples of mis-management. Decisions of management against co-operative principles.
- (iv) In the case of urban co-operative banks, disproportionate advances to vested interest groups, such as relatives of management, and deliberate negligence about the recovery thereof. Cases of reckless advancing, where the management is negligent about taking adequate security and proper safeguards for judging the credit worthiness of the party.

9. Audit classification of society - After a judgement of an overall performance of the society, the auditor has to award a class to the society. This judgement is to be based on the criteria specified by the Registrar. It may be noted here that if the management of the society is not satisfied about the award of audit class, it can make an appeal to the Registrar, and the Registrar may direct to review the audit classification. The auditor should be very careful, while making a decision about the class of society.

10. Discussion of draft audit report with managing committee - On conclusion of the audit, the auditor should ask the Secretary of the society to convene the managing committee meeting to discuss the audit draft report. The audit report should never be finalised without discussion with the managing committee. Minor irregularities may be got settled and rectified. Matters of policy should be discussed in detail.

13.4 Rights and Duties of Co-Operative Auditors

Section 17 of the Cooperative Societies Act, 1912 contains audit provision as under:

- (i) The Registrar shall audit or cause to be audited by some person authorised by him by general or special order in writing in this behalf the accounts of every registered society once at least in every year.

- (ii) The audit under sub-section (1) shall include an examination of overdue debts, if any, and a valuation of the assets and liabilities of the society.
- (iii) The Registrar, the Collector or any person authorised by general or special order in writing in this behalf by the Registrar shall at all times have access to all the books, accounts, papers and securities of a society, and every officer of the society shall furnish such information in regard to the transactions and working of the society as the person making such inspection may require.

On completion of audit, the auditor has to submit his audit report to the society, and copies thereof to the respective authorities such as District Special Auditor, District Deputy Registrar etc. The audit report has to be submitted in the prescribed form specified by the Registrar or as given in the related Rules. According to the present prescribed form in some of the States, the auditor has to state:

- (a) Whether he has obtained all the necessary information and explanations which to the best of his knowledge and belief were necessary for the purpose of audit.
- (b) Whether in his opinion and to the best of his information and according to the explanations given to him, the said accounts give all the information required by the Act, and
- (c) Whether the Profit and Loss Account of the society gives a true and fair view of the Profit and Loss made by the society.
- (d) Whether the Balance Sheet drawn up as at the end of the year gives a true and fair view of the state of affairs of the society as on the given date.
- (e) Whether in his opinion, proper books of account as required by the Act, the Rules and the bye-laws of the society have been properly maintained.
- (f) Whether the Balance Sheet and the Profit and Loss Account examined by him are in agreement with the books of account and returns of the society.

The auditor will have to give qualifying observations, if any of the answers to the above mentioned matters are negative.

13.5 Form of Audit Report

The form of the audit report to be submitted by the auditor, as prescribed in various states, contains a number of matters which the auditor has to state or comment upon. For example, the Rules formed under the Maharashtra State Co-operative Societies Act requires the auditor to make the usual affirmation pertaining to proper maintenance of books of accounts, true and fair nature of financial statements, etc. In addition to the above, the auditor will have to attach schedules to the report regarding the following information:

- (1) All transactions which appear to be contrary to the provisions of the Act, the rules and bye-laws of the society.
- (2) All sums, which ought to have been, but have not been brought into account by the society.

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- (3) Any material, or property belonging to society which appears to the auditor to be bad or doubtful of recovery.
- (4) Any material irregularity or impropriety in expenditure or in the realisation or monies due to society.
- (5) Any other matters specified by the Registrar in this behalf.

In the case of nil report in any of the above matters, the auditor will have to give a nil report.

Further in addition to the audit certificate in the prescribed form and various schedules stated above, the auditor of co-operative society in the applicable State has to answer two sets of questionnaires called as audit memos. The first set of audit memo or questionnaire is of general nature and is applicable to all types of societies such as urban banks, consumers' stores, credit societies etc. The second set of questionnaire is specific for a particular type of society. These questionnaires are drafted in detail and serve the practical purpose of audit programme.

The audit report in a narrative form is also required to be submitted by the auditor addressed to the Chairman of the society. Generally the narrative audit report as per convention is divided into two parts styled as part I and part II. Part I of the report is very important which throws a light on comparative financial position, capital structure, solvency position and the profitability or otherwise of the society. It may contain comments on the working of the society and the suggestions for future improvements. It must be suitably divided into paragraphs. Part II of the report points out the observations of routine nature, which are the finished products of the routine vouch and post audit such as missing vouchers, loan bonds, inadequacies of documents, mistakes of principles in accounting etc. However mistakes having an impact on the profitability of society should be pointed out in Part I as it has got a consequential effect on the financial position of society.

13.6 Audit, Inquiry and Inspection of Multi-State Co-Operative Societies

The Multi-State Co-operative Societies Act, 2002, which came into force in August, 2002 applies to co-operative societies whose objects are not confined to one State. The Act contains detailed provisions regarding registration, membership and management of such societies.

Chapter VII of the Act deals with properties and funds of the Multi-State co-operative societies. The funds of a Multi-State co-operative society cannot be utilised for any political purpose. The Act contains detailed provisions regarding the investment of funds and restrictions on loans, borrowings, etc.

Books of Accounts - As per Multi-State co-operative society rules 2002, every Multi-State co-operative society shall keep books of account with respect to

- a. all sum of money received and expended and matters in respect of which the receipt and expenditure take place;
- b. all sale and purchase of goods;
- c. the assets and liabilities;

- d. in the case of a Multi-State co-operative society engaged in production, processing and manufacturing, particulars relating to utilization of materials or labour or other items of cost as may be specified in the bye-hours of such a society.

13.6.1 Audit of Multi-State Co-operative Society –

1. Qualification of Auditors Section 72 - A person who is a Chartered Accountant with in the meaning of the Chartered Accountants Act, 1949 can only be appointed as auditor of Multi-State co-operative society.

However the following persons are not eligible for appointed as auditors of a Multi-State co-operative society.

- (a) A body corporate
- (b) An officer or employee of the Multi-State co-operative society.
- (c) A person who is a member or who is in the employment, of an officer or employee of the Multi-State co-operative society.
- (d) A person who is indebted to the Multi-State co-operative society or who has given any guarantee or provided any security in connection with the indebtedness of any third person to the Multi-State co-operative society for an amount exceeding one thousand rupees.

If an auditor becomes subject, after his appointment, to any, of the disqualifications specified above, he shall be deemed to have vacated his office as such.

2. Appointment of Auditors Section 70(6) - First auditor or auditors of a Multi-State co-operative society shall be appointed by the board within one month of the date of registration of such society and the auditor or auditors so appointed shall hold office until the conclusion of the first annual general meeting. If the board fails to exercise its powers under this sub-section, the Multi-State co-operative society in the general meeting may appoint the first auditor or auditors.

Sub-Section 2: The subsequent auditor or auditors are appointed by Multi-State co-operative society, at each annual general meeting, the auditor or auditors so appointed hold office from the conclusion of that meeting until the conclusion of the next annual general meeting.

3. Power and duties of Auditors Section 73 - Every auditor of a Multi-State co-operative society shall have a right of access at all times to the books accounts and vouchers of the Multi-State co-operative society, whether kept at the head office of the Multi-State co-operative society or elsewhere, and shall be entitled to require from the officers or other employees of the Multi-State co-operative society such information and explanation as the auditor may think necessary for the performance of his duties as an auditor.

As per Section 73(2) the auditor shall make following inquiry:

- a. Whether loans and advances made by the Multi-State co-operative society on the basis of security have been properly secured and whether the terms on which they have been made are not prejudicial to the interests of the Multi-State co-operative society or its members.

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- b. Whether transactions of the Multi-State co-operative society which are represented merely by book entries are not prejudicial to the interests of the Multi-State co-operative society.
- c. Whether personal expenses have been charged to revenue account and
- d. Where it is Stated in the books and papers of the Multi-State co-operative society that any shares have been allotted for cash, whether cash has actually, been received in respect of such allotment, and if no cash has actually been so received, whether the position as stated in the account books and the balance sheet as correct regular and not misleading.

4. Content of Auditor's Report - As per section 73, sub-section 3 & 4 of Multi-state Co-operative Society Rule, 2002, the Auditor's Report shall contain the following particulars.

Sub Section 3 : The auditor shall make a report to the members of the Multi-State co-operative society on the accounts examined by him and on every balance-sheet and profit and loss account and on every other document required to be part of or annexed to the balance-sheet or profit and loss account, which are laid before the Multi-State co-operative society in general meeting during his tenure of office, and the report shall state whether, in his opinion and to the best of his information and according to the explanation given to him, the said account give the information required by this act in the manner so required, and give a true and fair view:

- a. In the case of the balance-sheet, of the state of the Multi-State co-operative society's affairs as at the end of its financial year; and
- b. In the case of the profit and loss account, of the profit or loss for its financial year.

Sub Section 4: The auditor's report shall also state:

- a. Whether he has obtained all the information and explanation which to the best of his knowledge and belief were necessary for the purpose of his audit.
- b. Whether, in his opinion, proper books of account have been kept by the Multi-State co-operative society so far as appears from his examination of these books and proper returns adequate for the purpose of his audit have been received from branches or offices of the Multi-State co-operative society not visited by him.
- c. Whether the report on the accounts of any branch office audited by a person other than the Multi-State co-operative society's auditor has been forwarded to him and how he has dealt with the same in preparing the auditor's report.
- d. Whether the Multi-State co-operative society's balance sheet and profit and loss account dealt with by the report are in agreement with the books of account and return.

Sub Section 5: Where any of the matters referred to in sub-section 3 or sub-section 4 is answered in the negative or with a qualification, the auditor's report shall state the reason for the answer.

5. Power of central Government to direct special audit in certain cases - Under Section 77 where the Central Government is of the opinion:

- a. that the affairs of any Multi-State co-operative society are not being managed in accordance with self-help and mutual aid and co-operative principles or prudent commercial practices or with sound business principles; or

- b. that any Multi-State co-operative society is being managed in a manner likely to cause serious injury or damage to the interests of the trade industry or business to which it pertains; or
- c. that the financial position of any Multi-State co-operative society is such as to endanger its solvency.

The central Government may at any time by order direct that a special audit of the Multi-State co-operative society's accounts for such period or periods as may be specified in the order, shall be conducted and appoint either a chartered accountant as defined in clause (b) of sub-section (1) of section 2 of the Chartered Accountants Act, 1949 or the Multi-State co-operative society's auditor himself to conduct the special audit.

However, central Government shall order for special audit only if that Government or the State Government either by itself or both hold fifty-one percent or more of the paid-up share capital in such Multi-State co-operative society.

The special auditor shall have the same powers and duties in relation to the special audit as an auditor of a Multi-State co-operative society has under section 73. However the special auditor shall instead of making his report to the members of the Multi-State co-operative society make the report to the Central Government. The report of the special auditor shall, include all the matters required to be included in the auditor's report under section 73 and any other matter as directed by the Central Government.

On receipt of the report of the special auditor the Central Government may take such action on the report as it considers necessary in accordance with the provision of the Act or any law for the time being in force.

Provided that if the Central Government does not take any action on the report within four months from the date of its receipt, that Government shall send to the multi- State co-operative society either a copy of, or relevant extract from, the report with its comments thereon and require the multi- State co- operative society either to circulate that copy or those extracts to the members or to have such copy or extracts read before the multi- State co-operative society at its next general meeting.

The expenses of, and incidental to, any special audit under this section (including the remuneration of the special auditor) shall be determined by the Central Government which determination shall be final and paid by the multi- State co- operative society and in default of such payment, shall be recoverable from the multi- State co- operative society as an arrear of land revenue.

13.6.2 Inquiry by Central Registrar under Section 78 : The Central Registrar may, on a request from a federal co-operative to which a Multi-State co-operative society is affiliated or a creditor or not less than one-third of the members of the board or not less than one-fifth of the total number of members of a Multi-state co-operative society hold an inquiry or direct some person authorized by him by order in writing in his behalf to hold an inquiry into the constitutions, working and financial condition of a Multi-State co-operative society. However, before holding such inquiry fifteen days notice must be given to the Multi-State co-operative society.

13.14 Advanced Auditing and Professional Ethics

As per sub-section (i) of Section 78 the Central Registrar or the person authorized by him shall have the following powers, namely:

- a. he shall at all reasonable times have free access to the books, accounts, documents, securities, cash and other properties belonging to or in the custody of the Multi-State co-operative society and may summon any person in possession or responsible for the custody of any such books, accounts, documents securities, cash or other properties to produce the same at any place specified by him.
- b. he may, notwithstanding any bye-law specifying the period of notice for a general meeting of the Multi-State co-operative society, require the officers of the society to call a general meeting of the society by giving notice of not less than seven days at such time and place at the head quarters of the society to consider such matters as may be directed to him, and where the officers of the society refuse or fail to call such a meeting, he shall have power to call it himself.
- c. he may summon any person who is reasonably believed by him to have any knowledge of the affairs of the Multi-State co-operative society to appear before him at any place at the headquarters of the society or any branch there of and may examine such person on oath.

The Central Registrar shall, within a period of three months of the date of receipt of the report, communicate the report of inquiry to the Multi-State co-operative society, the financial institutions, if any, to which the society is affiliated, and to the person or authority, if any at whose instance the inquiry is needed.

13.6.3 Inspection of Multi-State co-operative societies under Section 79: The Central Registrar may, on a request from federal co-operative to which a Multi-State co-operative society is affiliated or a creditor or not less than one-third of the members of the board or not less than one-fifth of the total number of members of a Multi-State co-operative society by general or special order in writing in this behalf inspect or direct any person authorized by him by order in writing in this behalf to make an inspection into the constitution, working and financial condition of a Multi-State co-operative society.

The Central Registrar or the person authorized by him shall have the following powers:

- a. he shall at all times have access to all books, accounts, papers, vouchers, securities, stock and other property of that society and may, in the event of serious irregularities discovered during inspection, take them into custody and shall have power to verify the cash balance of the society and subject to the general or special order of the central registrar to call a meeting of the society where such general meeting is, in his opinion necessary.
- b. Every officer or member of a Multi-State co-operative society shall furnish such information with regard to the working of the society as the central registrar or the person making such inspection may require.

A copy of the report of inspection under this section shall be communicated to the Multi-State co-operative society within a period of three months from the date of completion of such inspection.