

Audit of Co-Operative Societies

Question 1

Write a short note on Restriction on shareholding in a Co-operative Society.

(4 Marks, November, 2014)

Answer

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 ₹ 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.

Question 2

Write a short note on Aspects to be covered in the books of accounts to be maintained by a multi-state co-operative society.

(4 Marks, November, 2013)

Or

State the requirements regarding the maintenance of books of accounts with respect to a multi-state co-operative society.

(4 Marks, May, 2011)

Answer

Books of Accounts to be Maintained by a Multi-State Co-Operative Society: As per Multi-State Co-Operative Society Rules, 2002, every multi-state co-operative society shall keep books of account with respect to-

- (i) all sum of money received and expended and matters in respect of which the receipt and expenditure take place;
- (ii) all sale and purchase of goods;
- (iii) the assets and liabilities;

- (iv) 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-laws of such a society.

Comprehensively, the following books of accounts may be maintained:

- (i) *Cash book*: It may be maintained to record particulars regarding cash receipts and expenses under suitable heads, with clear distinction between capital and revenue items of receipts and expenses.
- (ii) *Stock register*: It may contain detailed information as regards receipts, issues and balances of stock-in-trade, date-wise. In a producers co-operative society, perpetual inventory records may be maintained based on an appropriate costing method.
- (iii) *Register of assets and investments*: It will contain detailed particulars regarding the various immovable and movable assets belonging to the society, such as, types of assets, location, date of acquisition, cost, depreciation provided, and so on.
- (iv) *Register of fixed deposits*: In the case of a co-operative credit society, or a co-operative bank, or any other society which is authorised by its laws to accept deposits from members/ non-members, a register of fixed deposits may be maintained giving details as regards the dates of acceptance, maturity, interest accrual, repayment, etc.
- (v) *Register of sureties*: In the case of a co-operative credit society, loans are given against personal security of members as also surety (guarantee) provided by two other members. The Register of Sureties will give particulars about the number of borrowers in respect of which a member has stood surety, and show whether it is within the overall limit of surety-ship that may be given by a member as prescribed by the bye-laws.
- (vi) *Register of loan disbursement and recovery*: In the case of a co-operative credit society, this Register will provide particulars regarding loans sanctioned by the society, the dates of disbursement and recovery.

Question 3

Write a short note on Restrictions on investments of funds of a central co-operative society.

(4 Marks, May, 2013)

Answer

Restrictions on Investment of Funds of a Central Co-operative Society: Provisions of the Central Act put some restrictions on investments of funds of a Central Cooperative Society. According to Section 32 of the Central Act, a Central Cooperative Society may invest its funds only in any one or more of the following-

- (i) In the Central or State Co-operative Bank.
- (ii) In any of the securities specified in Section 20 of the Indian Trusts Act, 1882.
- (iii) In the shares, securities, bonds or debentures of any other society with limited liability.

- (iv) In any co-operative bank, other than a Central or State co-operative bank, as approved by the Registrar on specified terms and conditions.
- (v) In any other moneys permitted by the Central or State Government.

In 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.

Question 4

*"Examination of overdue debts, audit classification of society, and reporting the infringement of provisions of the Act are the special features of audit of a co-operative society." Do you agree?
(6 Marks, November, 2010)*

Answer

Special Features of Co-operative Society Audit: The special features of co-operative society audit, to be borne in mind in general while conducting the audit are examination of overdue debts, overdue interest, certification of bad debts, valuation of assets and liabilities, adherence to co-operative principles, reporting infringement of act and rules, verification of members' register and examination of their pass books, special report to the registrar, audit classification of co-operative society, discussion of draft audit report with managing committee etc.

Besides the other special features mentioned above the Examination of overdue debts, audit classification of society and reporting the infringement of provisions of the Act, are some of special features of audit of a co-operative society which are explained as follows:

- (i) **Examination of overdue debts:** Auditor of a co-operative society has to classify the overdue debts for a period from 6 months to five years and more than 5 years. Further these debts are to be analyzed in 'good' or 'bad' depending on the recoverability of the debts. The bad and doubtful debts require some provision and the auditor has to ascertain whether proper provision for bad & doubtful debts has been made. The current year's amount of overdue debts and its ratio to the working capital and loans outstanding is to be compared with last year to know whether the trend is increasing or decreasing. The status of the court cases for recovery of the overdue debts is also to be mentioned in the audit report. While calculating the profit the interest on the overdue debts is not to be taken into account. The Bad debts portion of the overdue debts is to be certified by the auditor for the purpose of writing off.
- (ii) **Audit Classification of Co-operative Society:** It is a unique feature of the Co-operative audit. After completion of the audit the auditor has to evaluate the working of the society on the basis of various parameters and criteria which are 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.-For good performance having certain marks "A class

is given. The D class is given to the society which shows very poor performance. In the same way B or C class is awarded on the basis of the marks obtained by the society.

- (iii) Reporting infringement of Act and Rules: The auditor of the co-operative Society is required to report the non compliance of the various provisions of the Co-operative Societies Act, Rules framed under that Act and the by laws of the society. He has to assess the financial implications of such infringements and disclose the same in his report. The infringements of serious nature are to be reported separately and infringements which do not have financial implications and which have no serious effect on the working of the society or rights of the members may be reported separately.

Thus we can say that Examination of overdue debts, audit classification of society and reporting the infringement of provisions of the Act, are only some of special features of audit of a co-operative society.

Question 5

Under what circumstances, an auditor is required to submit a special report to the registrar of Co-operative Societies? (4 Marks, November, 2009)

Or

Write a short note on Special Report by auditor to Registrar of Cooperative Societies.

(4 Marks, May, 2005)

Answer

Special Report by Auditor to Registrar of Co-operative Societies: Under the following circumstances, an auditor has to issue special report to the Registrar of Co-operative Societies (This report should be in addition to the regular report)-

- (i) (a) Any member of the managing committee is involved in personal profit making by using the properties or assets of the society, resulting into the loss to the society.
(b) Frauds are detected from the society's transactions.
- (ii) There is mismanagement in the society and the principles of co-operative are not maintained by the management.
- (iii) In the respect of audit of Urban Co-operative Banks, disproportionate advances to vested interest groups. Such as relative 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.

Question 6

List the special features involved in the audit of a Cooperative Society. (8 Marks, June, 2009)

Or

State the special features of Co-operative Societies Audit.

(8 Marks, May, 2004)

Answer

Special Features of Co-operative Societies Audit: The special features of co-operative societies audit, to be borne in mind while conducting the audit are as follows-

- (i) **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 is 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.
- (ii) **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.
- (iii) **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.
- (iv) **Valuation of Assets and Liabilities:** 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.
- (v) **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. 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.

- (vi) **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.
- (vii) **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.
- (viii) **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 such irregularities. 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-
 - (a) Personal profiteering by members of managing committee in transactions of the society, which are ultimately detrimental to the interest of the society.
 - (b) Detection of fraud relating to expenses, purchases, property and stores of the society.
 - (c) Specific examples of mis-management including decisions of management against co-operative principles.
 - (d) 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.
- (ix) **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.
- (x) **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.

Question 7

Write a short note on Powers and duties of an auditor of a Multi-state Cooperative Society.

(4 Marks, November, 2006)

Answer

Powers and Duties of an Auditor of a Multi-state Co-operative Society: Under Section 73 of the Multi-State Cooperative Societies Act, 2002 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 the duties as an auditor.

As per section 73 (2) the auditor shall make the following inquiries:

- (i) 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 or its members;
- (ii) Whether transactions of the Multi-State Co-operative Society which are represented merely by book entries are not prejudicial to the interest of the Multi-State Co-operative Society;
- (iii) Whether personal expenses have been charged to revenue account; and
- (iv) 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 is correct, regular and not misleading.