

IX-6 AUDIT CLASSIFICATION OF CO-OPERATIVE SOCIETIES

23. Introductory. - At the conclusion of his audit, the auditor is required to award an audit classification to the society. The auditors put all societies in one or other of the following classes. Audit classification Remarks A Excellent B Satisfactory C Poor D Very bad The audit class is based on certain recognized principles, which the auditor is required to follow. The various points to be considered while awarding audit classification to agricultural credit societies, central and urban banks, land development banks, consumers societies, marketing societies, forest labourers societies, sugar factories, spinning mills, etc. have been explained in a number of circulars issued by the Registrar. A system of awarding marks according to the extent of fulfillment of various criteria has also been laid down in respect of certain types of societies and classification has to be awarded on the basis of total marks secured by the society. It would thus, be seen that audit classification is awarded according to well recognized principles and auditors enjoy little discretion in the matter of awarding audit classification. Audit is the only method by which Government and the public can judge the position and achievements of the society and the audit class indicates the degree of success in achieving the objects for which the society has been organized and also its present position. Societies, which are awarded a high audit classification year after year, enjoy considerable public confidence and are in a position to raise funds required by them in comparatively easier manner. Audit must be conducted according to established audit practices and the instructions issued by the Registrar and the audit classification awarded after a careful examination of the extent of fulfillment of the various criteria prescribed for the purpose, since a wrong classification will not only Co-operative Societies Audit Manual 210 affect the working of the society and its credit, but will also mislead members and creditors of the society and also the general public as well as the wrong audit classification at higher side also mislead the creditors, depositors, members and Government. The Registrar has issued a number of circulars laying down definite criteria, which have to be considered by auditors while awarding audit classification. Different criteria are grouped under suitable heads and a system of awarding marks according to the extent of their fulfillment has been prescribed by the Registrar. Audit classification to the society has to be based on the total marks secured by it. A statement showing the different criteria prescribed by the Registrar for the type to which the society belongs and the marks allotted under each head and sub-head, has to be prepared by the auditor to enable him to determine in what audit class the society should be placed. The statement showing the marks allotted under each head referred to above may be shown to the office-bearers of the society if they desire to see it. The Registrar in his circular No. ADM/243, dated 6-12- 1955, has directed that in order to enable the society to know why the particular audit class has been awarded to the society, the auditor should devote a separate paragraph in his general remarks to be appended to the audit memo, the considerations in view of which the particular audit classification has been awarded to the

society. Where a system of awarding marks has been prescribed, the auditor should use his discretion as to the extent of fulfillment of the various criteria and be rather liberal in awarding marks, as restrictions have been laid down for awarding maximum marks under particular heads. So far, the Registrar has laid down specific criteria and maximum marks under each criteria, for the purpose of determining the classification to be awarded in case of the following types of the societies: -

- (i) Agricultural credit, multi-purpose and service societies. (Registrar's circular No.).
- (ii) Marketing societies. (Registrar's circular No. ADT/298/AC dated 23-7-1970).
- (iii) Consumers societies. (Registrar's Circular No. ADT/298/AC, dated 23-7-1970)
- (iv) Forest labourers societies. (Registrar's Circular No. ADT/298/AC, dated 15-2- 1969)
- (v) Co-operative Sugar Factories. (Registrar's Circular No. ADT/29/AC, (CSF), dated 10-8-1966
- (vi) Co-operative spinning mills. (Registrar's circular No. ADT/298/AC dated 30-4- 1970).
- (vii) Apex and primary land development banks. (Registrar' circulars No. ADT/298/AC, (LDB), dated 15-6-1964 and No. ADT (AC) (LDB) dated 31-8-1967).
- (viii) District Central Cooperative Bank (Registrar circulars No.)
- (ix) Urban Cooperative Banks (Registrar Circular No.)
- (x) Urban Credit Societies. (Registrar Circular No.)
- (xi) Salary Earners cooperative Societies (Registrar Circular No.)

Sr. No. Type of society to which it is applicable. Circular issued by the Registrar / Nabard

1 District Central Cooperative Banks NB.Dos.HO.POL / 1830 /J.1/ 2003.04 (Circular 58/ DoS.3/ 2004 dated 1st March 2004

2 Land Development Banks (Now Agriculture and Rural Development Bank) ADT/298/AC, (LDB), dated 15-6-1964 and No. ADT (AC) (LDB) dated 31-8- 1967

3 Agricultural and credit societies, multi purpose societies, seva sahakari Co-operative Societies Audit Manual 211 sanstha.

4 Urban Cooperative Banks

5 Salary Earners Societies

6 Agricultural Sale Purchase Society

7 Sugar Factories ADT/29/AC, (CSF), dated 10-8-1966

8 Industrial Sangh and Weavers Societies

9 Spinning Mill ADT/298/AC dated 30-4-1970

10 Dairy Societies

11 Dairy Union

12 Fisheries Societies

13 Poultry Societies

14 Consumers Stores and Societies ADT/298/AC, dated 23-7-1970

15 Housing Societies 16 Marketing societies ADT/298/AC dated 23-7-1970 17 Forest labour societies ADT/298/AC, dated 15-2-1969

24. Broad principles, - From the above table, it can be understood the audit classification is awarded based on the working of the society. There are other societies, where the Registrar has not issued circular but the auditor has to give the audit classification. The broad principles for awarding audit classification to different types of societies, where specific instructions have not been issued, are as under: -

(i) Co-operative vitality. – Following area to be considered at the time of checking the cooperative vitality and all these added together indicate the co-operative vitality of the society. (a) The extent of the interest manifested by the members in the working of the society as judged by their attendance and the extent of intelligent participation in the general meetings. (b) The proper selection of the office-bearers. (c) The outlook of the members of the committee as can be seen by the strict observance of the bye-laws, Act and Rules (d) the efforts made by them to interest the ordinary members in the economic activities, (e) Administrative set-up and co-operative ideals of the society and the extent to which these efforts have borne fruits as indicated by the loyalty of the members to the society: (f) Punctuality in the repayment of their dues and discharge of other liabilities undertaken by them such as pooling and joint sale of produce in case of marketing societies, (g) participation in the production programs of the society in case of industrial societies purchasing their requirements from the co-operative stores, etc. and (h) Member willingness to allow their entire economic life to be molded by the society. Joint efforts for bringing about improvement in living conditions of the weaker section of the community by increasing productivity of their labour, provision of resources required by them, increasing their employment opportunities and saving them from being exploited by the

economically stronger section of the community active participation in community development activities are also important consideration.

(ii) Administrative Efficiency. - This is judged by the degree of efficiency attained in the day-to-day working of the society, due observance of co-operative principles and sound canons of business and financial propriety in the conduct of business and the sum total of the results achieved by the society in relation to the maximum which the society is intended or is capable of achieving both from the business and the co-operative stand points. In other words, the extent to which the society has been able to cater to the various Co-operative Societies Audit Manual 212 needs of its members and the manner in which its affairs are being conducted, should determine the administrative efficiency of the society. The committee should meet regularly at least once a month and discuss ways and means to develop the business of the society. The general meetings should also be well attended and all important policy decisions should have been taken after careful consideration.

(iii) Operational Efficiency. - This will depend upon adoption of sound purchase policy and maintenance of all stocks at satisfactory levels, preparation of financial budgets and adoption of budgeting system for purchases and sales and costs, avoidance of wastage and effecting economy in costs, full utilization of available resources and manpower and of installed capacity by working multiple shifts, adoption of measures for increasing productivity of labour, prompt and efficient service to members and other customers. Profit earned is only one of the criteria for judging operational efficiency.

(iv) Financial stability. - The following features determine the adequacy of the capital structure and soundness of the financial conditions of the society. (1) The adequacy of the owned resources of the society in relation to its total needs and its capacity to raise funds to meet the financial requirements of its members; (2) Proper balance between its own funds and its borrowings and satisfactory increase in own funds; (1) Proper distribution of its assets as may be appropriate for the type of activity undertaken by the society and standard prescribed by the Registrar and finally. (2) The precautionary and other measures taken and the policy in working adopted to ensure strict fulfillment of the legal, social, financial and other obligations by the society to its members, creditors and other customers and to the society by its members and other debtors.

(v) Staff. - Unless a society has adequate, competent, properly qualified and trained staff employed under satisfactory conditions and adequately remunerated, it will not be able to discharge its functions satisfactorily.

(vi).Internal control. - A satisfactory system of internal control is the sine-qua-non of successful management. The following are the essential features of a sound system of internal control. (1)

Proper delegation of authority and distribution of work and responsibility amongst the officers and the different members of the staff so as to ensure that the work of each employee is checked by another and no individual howsoever highly placed has the sole responsibility for all the phases of a transaction. (2) Provision of checks and balances at every accounting point to prevent collusion and also to ensure prompt detection of frauds and errors. (3) Unambiguous fixation of duties and responsibilities of each employee and proper supervision over all these arrangements to ensure smooth and efficient working. (4) Satisfactory arrangements for safeguarding of the cash, securities, stock in trade and other property of the society. (5) Maintenance of up-to-date accounts and records and arrangements for internal audit. (vii) Accounts and Records. - Correct and up-to-date maintenance of account books and records and availability at all times of any financial or statistical information that may be required, correct and up-to-date posting of ledgers, prompt preparation of monthly/quarterly statements of accounts and reports for consideration at Board meetings, maintenance of cost accounts.

(viii) Rectification of audit objections. - Action taken to remedy the defects pointed out by the Auditor and punctual submission of the audit rectification reports, is also an important consideration. Co-operative Societies Audit Manual 213

(ix) Overdues. - Punctual repayment of the dues any the members and prompt recovery of other debts due to the society. Prompts and adequate action to recover all dues and overdues and precautions taken to arrest the growth of overdues. The above are the more important of the general considerations which applicable for all types of societies. However, certain special criteria have to be taken into consideration while awarding audit classification to different types of societies having due regard to the nature of business conducted by them and the special features of their working.

26. Special instructions for certain type of societies. -The Registrar has also issued general instructions for awarding audit classification of urban banks and non-agricultural credit societies under Registrar's circular No. ADM-6-20, dated 26-11-1957. Under Circular No. M.F./Audit dated 30-10-1956, the Joint Registrar for Industrial Co-operation and Village industries, Poona, has laid down a criteria for granting audit classification to industrial co-operatives. The Nabard in its circular No.NB.Dos.HO.POL / 1830 /J.1/ 2003.04 (Circular 58/ DoS.3/ 2004 dated 1st March 2004 has laid down criteria for awarding audit classification to District Central Co-operative Banks, the same is made applicable by the Registrar vide his letter No. ANI/ LEP/ JIMSABANK Vargvari/ 782/ 2004 dated 21st July2004 . These are being followed while awarding audit classification to District Central Co-operative Banks in this State. 27. Appeals against audit classification awarded by auditor. -Although audit classification has to be awarded on consideration of a number of factors and definite criteria, which have been laid down by the Registrar, are required to be taken into consideration, it is possible that some of

the societies may feel that they deserve a higher audit classification. Such societies may appeal to the Registrar for raising the audit class awarded to them by the auditor, stating the grounds, which justify award of a higher audit class. The appeal for audit classification is heard by the Registrar as per section 154 of the M.C.S. Act. The Registrar may also raise the audit class if he is satisfied that the society deserved a higher audit class and communicate his decision to the society and the Registrar.