

Provisions relating to accounts &
audit of Cooperative societies ,
reaudit, test audit , enquiry &
inspection

Appointment of Auditor –
Article 243 ZM of Constitution
Section 75 (2 A)

- ❖ Every society shall appoint an auditor or auditing firm from panel approved by State Government in its Annual General Body meeting.
- ❖ Society shall file in form of return to the Registrar the name of auditor & his written consent within 30 days from the date of Annual General Meeting.
- ❖ Same auditor shall not be appointed for more than 3 consecutive years.

Section 81

- ❖ Audit shall be completed within 4 months from close of financial year.
- ❖ Audit report also in compact disk shall be submitted to society & Registrar (Rule 69 1b)
- ❖ Part A of audit report , audited financial statements & audit certificate shall be uploaded on website of Govt
- ❖ If society has not appointed auditor and failed to file return under sub section (2 A) of 75 or sub section (1 B) of section 79, Registrar shall appoint auditor from panel.
- ❖ No auditor shall accept audit of more than 20 societies excluding societies having paid up capital of less than Rs.1 lakh.

Article 243 zm of constitution

- ❖ Registrar shall submit audit report of every Apex society to State Government for being laid before both houses of State Legislature.
- ❖ Audit report shall have
 - ✓ All particulars of defects or irregularities.
 - ✓ In case of financial irregularities & misappropriation or fraud, auditor shall investigate & report modus operandi, entrustment & amount involved.

Rule 69 (3) :- Auditor shall submit audit memorandum in case of banks in form N1 and in case of other societies in form N2.

Rule 69 (3) :- Auditor shall state whether accounting policies adopted by societies are consistent with Accounting Standards laid down by State Government or ICAI.

Rule 69 (3) :- While certifying Profit and Loss account, auditor shall quantify effect of shortfall in various provisions like NPA, OIR, Depreciation etc. over profit or loss and state clearly that after considering effect of all provisions, whether there is profit or loss.

Sec 81 (2) Audit shall include

- Examination of Book Entry Transactions
- Section 81 (2) –Whether there are any book entry transactions & whether they are prejudicial to the interest of depositors
- Verification of overdue debts
- Verification of cash balance by surprise
- Whether personal expenses chargrd to revenue

Eligibility of auditor for panel

- a) Chartered Accountant having fair knowledge of functioning of society and experience of at least one year in auditing of societies and working knowledge of Marathi.
- b) Auditing Firm – A firm of more than one Chartered Accountant having fair knowledge of functioning of society and knowledge of marathi.
- c) Certified Auditor –
 - i) Who holds degree
 - ii) Fair knowledge of functioning of society
 - iii) Three years experience in audit of society

d) Departmental Auditor :-

- i. Who has passed G.D.C.&A. / D.C.M. /H.D.C.M. / DCA.
- ii. Who has completed probationary period satisfactorily.

Section 81 (2)

- ❖ Audit shall be carried out as per Auditing Standards notified by State Government.

Provision of Act / Rules with
which auditor is more
concerned

Section 65 & Rule 49 (a)

- ❖ Amounts to be deducted before calculating Net Profit :-
 - ✓ Interest payable on loans and deposits
 - ✓ Establishment expenses
 - ✓ Rent, Rates & Taxes
 - ✓ Audit fee
 - ✓ Provision for depreciation
 - ✓ Provision for Bonus
 - ✓ Provision for Bad and Doubtful Debts.
 - ✓ Provision for Gratuity, leave encashment as per AS 15
 - ✓ Capital redemption fund
 - ✓ Provision for depreciation in Investment
 - ✓ Provision for O.I.R.
 - ✓ Provision for N.P.A.
 - ✓ Provision for election expenses
 - ✓ Provision for income Tax
 - ✓ Provision for training & education Directors, employees & members

Books of Accounts - Rule 65

- ❖ Society shall keep the following book of accounts :-
 - ✓ Member Register in form "I"
 - ✓ Share Register
 - ✓ Minute book of Annual General Body Meeting.
 - ✓ Minute book of Board of Directors Meeting / Sub committee meeting.
 - ✓ Cash Book.
 - ✓ Day book
 - ✓ Bank book
 - ✓ General Ledgers.
 - ✓ Individual Ledgers
 - ✓ Stock Register
 - ✓ Property Register

- ✓ Property Register in form “X1”
- ✓ Register of auditors appointed and their written consent.
- ✓ Register of audit objection and their rectification.
- ✓ Returns of society in form “Y”
- ✓ List of Active Members in form “J 1”
- ✓ List of Non-Active Members in form “J 2”
- ✓ Record of attendance of general body meeting.

Rul 107 (a) :- Travelling expenses of Directors.

- ❖ Chairman or Vice Chairman of Apex society, State level society, Sugar factory, Spinning mill can only travel by air but they have to attach air ticket to their travelling bill.
- ❖ Director of Apex society, State level society, Sugar factory, Spinning mill & society whose paid up share capital is 50 crore or more can travel by highest class of Railway. He can claim one and half of the actual railway fare but he has to attach railway ticket to his travelling bill.
- ❖ If he doesn't attach railway ticket he shall be entitled to second class fare.

Refund of share capital Rule 23

- ❖ If a person has ceased to be a member of society then shares shall be returned to him or his nominee by making valuation of shares based on last

Value per share =	Networth
	No. of shares.

Net worth =	Paid up share capital + Free Reserves – Accumulated loss – shortfall in provisions
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cont.

- ❖ If nominal value of share is Rs.1000/- & valuation comes at Rs.400/-, society shall return share = Number of shares x 400/-
- ❖ If valuation comes at Rs.1200/-, society shall return Rs.1000/- per share.

Limit on interest -Section 44 A

- ❖ Co-operative society including urban co-operative banks cannot recover as interest more than principal in respect of loan granted for agricultural purpose. Case – Hinganghat Nagari Sah.Patsanstha Vs Ashok Keshav Fukat.
- ❖ In case of non-agricultural loan upto Rs.10,000/-, co-operative society including Urban Co-operative Bank cannot recover as interest more than principal.
- ❖ Reserve Bank of India vide its circular dated 26/08/2002 directed banks to charge simple interest on Agricultural loans and at annual rests.

Rule 49 – Write off of Bad debts

- i. Debt certified as irrecoverable by auditor.
- ii. Sanction of Annual General Meeting.
- iii. Prior approval of Registrar in writing.
- iv. If society is indebted to Central bank, prior approval of Central bank.
- v. If society is in 'A' or 'B' audit class, no approval of Registrar is required.
- vi. Debt should be write off from Bad debt fund specially created.

Article 243 ZP of Constitution

Section 79 (1 A)

- ❖ Every society shall file returns within 6 months of close of financial year to Registrar
 - ✓ Annual report of activities.
 - ✓ Its audited statement of accounts.
 - ✓ Plan for disposal of surplus.
 - ✓ List of amendment to the bylaws
 - ✓ Declaration of date of holding Annual General Body Meeting & conduct of election when due.

Section 79 (1 B)

- ❖ Every society shall file return regarding name of auditor & his written consent within one month from Annual General Meeting.

Section 81 (1) (f)

- ❖ Remuneration of auditor or auditing firm shall be borne by society & shall be at such rates as may be prescribed.
- ❖ Rule 69 – Remuneration of auditors shall be at such rates as may be notified by Government.
- ❖ Government of Maharashtra has issued notification regarding revised audit fees on 29/10/2014.

Section 70 :- Investment of funds

- ❖ In DCC / SCB having A class in last 3 consecutive years.
- ❖ Securities specified in Section 20 of Indian Trust Act 1882.
- ❖ In shares / bonds of societies having similar classification.
- ❖ CCSE shall invest its funds subject to guidelines issued by R.B.I.
- ❖ Any other mode permitted by Rules or general or special order by Government.
- ❖ In Urban Co-operative banks having 'A' audit class for last 3 consecutive years.
- ❖ In RRB, nationalized banks at HO vide Government of Maharashtra order dated 05/12/13

SA 700 – Forming an opinion & reporting on financial statements

- ~~Applicable with effect from 01/04/2012.~~
- Report should state that preparation or fair presentation of financial statements is the responsibility of Management.
- Report should describe Scope of audit stating that audit was conducted in accordance with Auditing Standards.
- There are 3 types of opinions
 - Qualified opinion.
 - Adverse opinion.
 - Disclaimer of opinion.
- Auditor shall express qualified opinion when he concludes that Misstatements, individually or in aggregate are material but not pervasive to the financial statements.

➤ When auditor concludes that having obtained sufficient appropriate audit evidence, misstatements individually or in aggregate are both material & pervasive. E.g. If an ~~Urban Co-operative Bank~~ has shown Net Profit for Rs.10 crore and if

a. There is short provision of depreciation Rs.0.50 crore.

b. There is short provision of NPA Rs.8.00 crore

c. There is short provision of OIR Rs.3.50 crore

d. There is no provision gratuity Rs.0.50 crore

Total effect Rs.12.50 crore

a. There is excess provision for expenses Rs.1.00 crore

Net effect on profit Rs.11.50 crore

➤ Therefore misstatements are material & pervasive. Because, considering net effect on Net Profit, there will not remain profit to the bank. It will incurred Net loss Rs.1.50 crore.

➤ In such circumstances, auditor should certify that there is no profit to the bank. It has incurred loss of Rs.1.50 crore. Therefore Profit & Loss A/c does not show true & fair view.

- On the other hand, if circumstances is as follow, then ~~qualified opinion will be necessary.~~ E.g. Urban Co-operative Bank has shown Net Profit for Rs.10 crore & if
 - There is short provision for NPA Rs.2.00 crore
- Then net effect on profit is Rs.2.00 crore. Profit is overstated by bank by Rs.2.00 crore.
- This misstatement is material but not pervasive.
- Therefore he shall certify “Net Profit of bank has been overstated by Rs.2.00 crore”

Disclaimer of opinion

When material record is not available or destroyed by fire or otherwise he should express disclaimer of opinion & state reasons for disclaimer.

Example of disclaimer of opinion

Due to destruction of records by fire, we are unable to state whether financial statements show true & fair view or not.

Section 43 Restriction on borrowing - Rule 35

- ❖ Society shall receive deposits & loans only to such extent as may be prescribed.
- ❖ Borrowing limit as per Rule = Paid up share capital + Reserve fund + Building fund – Accumulated loss x 10.
- ❖ Not applicable if not received any financial assistance from Governme& send it to Registrar .
- ❖ Not applicable to C.C.S.E.

Section 28 :- Restriction on holding shares

- A member can not hold shares more than Rs.20,000/-
- Restriction on Share holding by member of UCB – up to 5% of paid up share capital of that bank.
- Restriction on share holding by members of Credit society – upto Rs.2 lakh.

**Classification of
Auditors and Societies.
(under Section 81 and Rule 69
(1) (f) (vii))**

TABLE A

Class	Description of Auditors
A	Chartered Accountant Firm
	Chartered Accountant having at least 5 years experience in audit of co-op.socy.
	Joint Registrar (Audit) and Special Auditor Class 1 who was completed probation period successfully

TABLE B

Class	Description of Auditors
B	Chartered Accountant having at least one year experience in audit of Co-operative Societies.
	Special Auditor Class 2 & Auditor Grade 1 who was completed probation period successfully

TABLE C

Class	Description of Auditors
C	Certified Auditor having at least 3 years experience in audit of Co-operative Societies
	Auditor Grade 2 and Sub-Auditor who was completed probation period successfully.

Class A Societies

1. Maharashtra State Co-operative Bank
2. District Central Co-operative Bank
3. Urban Co-operative Banks having Deposits more than Rs.25 Crores.
4. Salary Earners Co-operative Bank
5. Maharashtra State Co-operative Marketing Federation.
6. Maharashtra State Co-operative Cotton Grower's Federation.
7. Maharashtra Rajya Dudh Sangh (Mahananda)
8. Maharashtra State Co-operative Agriculture and Rural Multipurpose Development Bank.
9. Maharashtra State Co-operative Housing Finance Corporation.
10. Maharashtra State Tribal Development Corporation.
11. Maharashtra Rajya Sahakari Sangh and Divisional Co-operative Board.
12. Maharashtra State Co-operative Fisheries Federation.
13. Maharashtra State Co-operative Consumer Federation.

14. Maharashtra State Co-operative Spinning Mill Federation
15. Maharashtra State Co-operative Powerloom Federation.
16. Maharashtra State Co-operative Textile Federation.
- ~~17. Maharashtra State Co-operative Handloom Federation.~~
18. Maharashtra State Co-operative Cotton Grower's Processing Societies.
19. Maharashtra State Co-operative Labour Societies Federation.
20. Maharashtra State Co-operative Bank Association.
21. Maharashtra State Co-operative Credit Societies Federation.
22. Maharashtra State Co-operative Jungal Kamgar Federation.
23. Maharashtra State Co-operative Sugar Factories Federation.
24. Maharashtra State Co-operative Sugar Industries Development Societies.
25. Maharashtra State Co-operative Cadre Federation and District Co-operative Cadre Board.

26. Maharashtra State Co-operative Industrial Societies Federation.
27. Other National and State level Co-operative Federation not mentioning above.

28. Co-operative Spinning Mill / Weaving Mills
29. Co-operative Sugar Factories.
30. District Co-operative Milk Union.
31. District Co-operative Agriculture and Rural Multipurpose Development Bank.
32. Any other society specified by Registrar from time to time.

Class B Societies

1. Urban Co-operative Bank having deposits upto Rs.25 Crores.
2. Urban Co-operative Credit Societies and Rural non-agricultural credit society having deposit 10 crores and above.
3. Salary earners Co-operative Credit Society having working capital 10 crores and above.
4. Co-operative Starch Factories.
5. Co-operative Industrial Estates.
6. District Co-operative Labour Federation.
7. Sales and Purchase Co-operative Unions (District and Taluka)
8. Housing societies having 100 and more members.
9. Co-operative Jinning and Pressing Societies / Rice Mills and Oil Mills.
10. Primary Co-operative Dairy Societies having turnover above Rs.50 lakh.
11. Primary Co-operative Poultry and piggery and livestock Societies having turnover above Rs.25 lakh

12. Primary Co-operative Fisheries Societies having turnover above Rs.50 lakh.
13. District / Central Weavers Co-operative Societies.

14. Co-operative Hospital.
15. Mula Pravara Electric Society and Other Electric Societies.
16. District Co-operative Board.
17. District Housing Federation.
18. Other District Federal Societies not mentioned above.
19. Any other society specified by Registrar from time to time.

Class C Societies

1. Primary Agricultural and Co-operative Credit Societies (PACS) and Primary Krushak and Adiwasi Seva / Grain Bank.
2. Urban Co-operative Credit Societies and Rural non-agricultural credit societies having deposits less than Rs.10 crores.
3. Salary earners societies having working capital less than Rs.10 crores.
4. Primary Co-operative Dairy Societies having turnover less than Rs.50 lakh.
5. Primary Co-operative Poultry, Piggery and Livestock Societies having turnover less than Rs.25 lakh.
6. Primary Co-operative Fisheries Societies having turnover less than Rs.50 lakh.
7. Sugarcane supply co-operative societies / Transport Co-operative societies.
8. All Farming Co-operative Societies.
9. Housing societies having less than 100 members.
10. Lift irrigation societies.

11. Labour contract societies.
12. Forest Labour Co-operative Societies.
13. All types of Primary Marketing Societies and Food Processing Societies.
14. Primary Weavers Co-operative Societies (Handloom and Powerloom)
15. Primary Industrial Co-operative Societies.
16. BLVA Societies.
17. Primary consumers Co-operative Societies.
18. Social service societies and unemployed youth co-operative societies.
19. Taluka supervisory unions.
20. Any other society specified by Registrar from time to time.

- Societies in Class A at serial no.1,5,6 and 7 shall be audited only by Chartered Accountant Firm or a Chartered Accountant or Joint Registrar (Audit). Auditors categorized in B Class and C Class are not eligible to audit societies categorized under Table – A. in case of Co-operative Bank, the Government Auditor may conduct Re-audit, Test audit or Special audit only.
- Societies in Class B at serial no.1 and 2 shall be audited only by a Chartered Accountant and Special Auditor Class 2. Auditors categorized in A Class above are also eligible to audit societies categorized under Table-B. auditors categorized in C Class are not eligible to audit societies categorized under Table B

- Auditors categorized in A Class and B Class above are also eligible to audit societies categorized under Table C.

Criteria for Removal of Auditor.

The criteria for removal of the name of auditor and auditing firms from the panel shall be as follows

- ⦿ Non-submission of audit report as specified in sub-section (5B) of section 81, to the society and the Registrar within the period of one month from the date of completion and in any case before the issuance of notice of the general body meetin.
- ⦿ not-disclosure the true and correct picture of accounts as specified in clause (c) of sub-section (3) of section 81.

- after giving consent for audit by the auditor or auditing firm and after issuance of order of appointment of auditor or auditing firm, audit is not completed within stipulated period as specified in subsection (1) of section 81.
- non-submission of specific report stating that, any person is guilty of any offence relating to the accounts or any other offences within a period of fifteen days from the date of submission of audit report to the society and the Registrar.
- failure to file special report to the Registrar if any

- failure to file the First Information Report, if required thereof.
- non-submission of scrutiny of audit rectification report within six months to the society.
- if in the test audit or re-audit of the society it is found that, the auditor or auditing firm is responsible for any commissions and omissions.
- if the auditor is borrower of the society and has conducted the audit of the same society without disclosing the said fact to the society.
- if the auditor or his family member is employee or ex-employee of the concerned co-operative society.

- if the auditor is an auditor or a partner of an auditing firm which is also conducting internal or concurrent audit of concerned Co-operative society.
- if the auditor or his family member, as specified under explanation (1) of sub-section (2) of section 75 of the Act, is committee member of the concerned co-operative society.
- if the auditor has conducted audit, without appointment order issued by the society with the prior approval of general body or the Registrar, if any, as the case may be.
- if the auditor is family member of a employee of the department of co-operation

SPECIFIC REPORT & SPECIAL REPORT & FRAUD DETECTION.

Section 81 (5 B)

- ❖ Auditor shall submit audit report within one month from its completion & in any case before issuance of notice of Annual General Body meeting.
- ❖ If auditor comes to the conclusion that any person is guilty of an offence, he shall file specific report to Registrar within 15 days of date of submission of his report & after obtaining permission from Registrar file F.I.R.
- ❖ Auditor who fails to file F.I.R., his name shall be removed from panel. Rule 69 (g/6)

❖ If auditor finds that there are financial irregularities resulting into loss of society, auditor shall prepare special report & submit along with audit report

❖ VERIOUS TYPES OF FRAUD & MODUS OPERANDI

1) Showing goods sold on credit without signature of buyers on credit memos and selling those goods in cash and misappropriation – Specific Report

- 2) Debiting Dormant SB Account and crediting accounts of officers & employees and withdrawing the amount – Specific Report.
- 3) Debiting HO Account and crediting accounts of customers and withdrawing the amount later on – Specific Report.
- 4) Debiting HO Account as “Cash sent to other branch” without actually cash being sent. No signature of cashier of receiving branch – Specific report.
- 5) Withdrawing amount in cash by self cheque & crediting account of that bank but fake debit to other bank & misappropriating amount and in the same year reverse entry is made – Specific Report.

- 6) Purchasing cheques of customers in excess of Rs. One lakh and in the same year crediting cheque purchase account and debiting cash credit account. Again crediting cash credit account and debiting Term Loan account. No Documents No Security – Specific Report.
- 7) Giving amount to officers / employees as Anamat for some purpose but without using for that purpose, depositing amount in cash after 10 to 11 months. No Anamat account outstanding at the year end – Specific Report & Special Report.
- 8) Giving advance / anamat to the chairman in the first week of April for some purpose and crediting amount in the last week of March to anamat account and debiting to cash credit account. Such practice continued for 3 years. Paying interest only for few days and using amount for whole year – Specific Report & Special Report.

9) Withdrawing cash from bank for expenses in-spite of sufficient opening cash balance.

Temporary misappropriation – Special Report.

10) Keeping cash in hand continuously far in excess of requirements – Special Report.

11) To show less quantity (Three hundred bags instead of four hundred bags) in inward column of stock book. Selling those goods in cash and using cash. This happens for want of stock taking. – Specific & Special Report.

12) To show excess quantity (Two hundred bags instead of one hundred bags) in outward column selling those bags in cash and misappropriating the amount – Specific Report.

- 13) Not paying dividend on Govt. share capital – Special Report.
- 14) Not refunding Govt. share capital after maturity – Special Report.
- 15) Refunding excess share capital to the members without valuation under rule 23 of MCS rules – Special Report.
- 16) Paying dividend to individual members at 10% and to Govt. at 6% - Special Report.
- 17) Paying TA, DA to BOD in excess of rule 107 (a) – Special Report.
- 18) Personal expenses debited to revenue – Special Report.
- 19) Wrong settlement of accounts under OTS scheme – Special Report.

- 20) Giving rebate in interest to few borrowers – Special Report.

- 21) Sanctioning of loan in excess of individual exposure and sectoral exposure – Special Report
- 22) Sanctioning of unsecured loans in excess of 10% of total assets of bank as at the end of previous year. – Special Report.
- 23) Selling property of borrower under SARFECI Act 2002 below reserve price – Special Report.
- 24) Giving advertisement for inviting tenders for selling property of borrower in only 1 news paper and that too not in leading news paper. – Special Report.

The above list is illustrative & not exhaustive.

Reaudit, test audit , enquiry

- Sec 81(6) If on an application of society or otherwise , it appears to the Registrar that it is necessary or expedient that accounts of society are required to be reaudited he shall issue order of reaudit .If there is fraud, misutilisation of funds but nothing is mentioned in audit report , then reaudit is ordered .
- All the provisions of Act applicable to audit will be applicable to reaudit
- Reaudit can be ordered for max 5 years

Test Audit sec 81(3c) & Reaudit section 81(6)

- Test audit can be ordered if audit report submitted by auditor does not disclose true & fair view of state of affairs . Registrar has to specify the points on which test audit is to be carried out . Suppose , society has constructed building but if there is any complaint that due procedure is not followed & cost of building is excessive , then to verify this aspect only , test audit is ordered

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- Re-audit shall be carried out by officer higher than original auditor.
 - Registrar by himself or by a person authorised by him shall hold an enquiry in to working & financial conditions in following circumstances
 - A) suo motu
 - B) on an application of 1/5 th members of society
 - c) on the basis of special report under
 - Section 81 (5B)

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- When enquiry is hold on an application Registrar may require applicant to deposit certain sum as cost of enquiry
 - Enquiry shall be completed within period of 6 months & in any case not later than 9 months.
 - Enquiry under section 83 is only fact finding process. There are generally complaints from members regarding mismanagement & enquiry is demanded

Inspection under section 84

- Registrar may , if he thinks necessary inspects or direct some person to inspect the books of society if
- A) on an application of creditor of society who satisfies the Registrar debt is due to him from society , he has demanded it but not received and
- B) deposits with Registrar such sum as security for cost of inspection
- Registrar shall communicate result of inspection to applicant & to society

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- The power of inspection conferred on Registrar by this section may be exercised by him on his own motion

Rectification Report under section 82 of MCS Act 1960

- Society shall submit rectification report to the Registrar within 3 months from date of audit report & state action taken by it thereon .
- Society shall place RR before next AGM
- If committee of society fails to submit RR , all members of committee shall be deemed to have committed an offence under sec 146 & liable for for penalty under sec 147

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- It shall be responsibility of auditor concerned to offer his remarks on RR itemwise untill entire rectification is made & submit his report to the Registrar.



THANKS