

# **PROVISIONS RELATED TO AUDIT OF**

**Co-operatives- Sec 81 and Rule  
69 of Amended MCS Act, 1960 .**

**CA. RAMESH S. PRABHU**  
CHAIRMAN, MSWA

# MEANING, DEFINITION AND OBJECTS OF AUDIT

---

## **Meaning: Co-operative Audit includes:**

- examination of Accounts.
- enquiry into affairs of a co-operative society.
- whether working according to the provisions of Co-operative Societies Act.
- scrutinizing activities of co-operative societies.

# **DUTIES AND RESPONSIBILITY OF AUDITOR TO THE SPECIAL PROVISIONS UNDER M.C.S.ACT, 1960 AND THE M.C.S. RULES 1961**

---

- 1) Examination of overdue debts.
- 2) Audit to be done for the current year.
- 3) Earlier year audit to be done by the auditor appointed by the registrar. Earlier to the Amendment to Rules, the audit was extend back to the date of previous Audit.
- 4) Submit Audit Memorandum.
- 5) Certify balance sheet and profit & loss account.

## .....contd

- 6) Schedules to be attached.
- 7) Prepare summary of audit memorandum.
- 8) Awarding of Audit Classification.
- 9) Report for non-compliance of conditions.
- 10) Report about misappropriation, retention etc

# LAWS APPLICABLE

---

- The MCS Act, 1960 and MCS Rules, 1961
- The Multi-State Co-op. Societies Act, 2002 & Rules
- The Banking Regulation Act, 1949
- The RBI Act, other Acts like Stamp Act, Law of Limitation
- Circulars issued by the RBI
- Bye laws of the Society
- ICAI – Accounting Standards, Policies & procedures
- LFAR/ Tax Audit Report
- Audit Committee of the Bank

# VARIOUS REPORTS

---

- Report to RCS and copy to various authorities
- One Page proforma of the bank
- Statutory Audit Report
- Balance Sheet & profit & Loss account
- Notes to Accounts . LFAR
- Form 1 & 7 . CRAR
- Part A – Basic details and Management
- Part B – Assets & Liabilities . Part C - General
- CAMEL rating
- Part C – Head Office & Branch Operations
- Tax Audit Report . FIR

**PROVISIONS OF SECTION 81  
OF THE MCS ACT 1960  
REGARDING THE  
APPOINTMENT OF AUDITORS  
AND SCOPE OF THE AUDIT.**

## U/s 81(1)(a) – Audit – Time Prescribed.

- The society shall cause to be audited its accounts at least once in each financial year and
- cause it to be completed within a period of four months from the close of financial year to which such accounts relate and
- in any case before issuance of notice of the holding of annual general body meeting,



## U/s – 81(1)(a) – Appoint of Auditor

- by auditor or auditing firm from a panel prepared by the Registrar and approved by the State Government or an authority authorized by it in this behalf possessing required qualifications and experience as may be prescribed to be eligible for auditing accounts of societies,
- appointed by a general body of a society, as provided in sub-section (2A) of section 75 and

## U/s – 81(1)(a) – Report to be Given To

- Shall lay such audit report before the annual general body meeting.
- In case of apex society, the audit report shall also be laid before both houses of State Legislature, in such manner, as may be prescribed:

## U/s – 81(1)(a) – Soc Failed to Appoint Auditor

- Provided that, if the Registrar is satisfied that the society has failed
- To intimate and file the return as provided by sub-section (2A) of section 75 and sub-section (1B) of section 79,
- By order, for the reasons to be recorded in writing, he may cause its accounts to be audited, by an auditor from the panel of the auditors approved by the State Govt. or an authority authorized by it in this behalf:

## U/s – 81(1)(a) – Restrictions on No of Audits

- Provided further that no auditor shall accept audit of more than twenty societies for audit in a financial year excluding societies having paid up share capital of less than Rs. one lakh.

**Note:** Aurangbad Bench of Bombay High Court has stayed :

(a) Restricting the number of societies to 20 for carrying out the audits by the Auditor and

(b) the clause No. F giving power to the societies to fix the rate of auditor.

# SEC – 81(1)(a) – Panel of Auditors

- Provided also that, the Registrar shall maintain a panel of auditors and auditing firms as approved by the State Govt. or an authority authorized by it in this behalf.
- b. The manner of preparation, declaration and maintenance of the panel of auditors and auditing firms by the Registrar shall be such as may be prescribed.
- c. The board of every society shall ensure that the annual financial statements like the receipts and payments or income and expenditure, profit and ....

# SEC – 81(1)(a) – Panel of Auditors

loss and the balance sheet along with such schedules and other statements are audited within four months of the closure of the financial year.

d The Registrar shall submit the audit report of every apex co-operative society to the State Government annually for being laid before both houses of state legislature in the manner prescribed.

# u/s – 81(1)(a) – Audit Report Contents

**(e) The auditor's report shall have:**

(i) All particulars of the defects or the irregularities observed in audit and

in case of financial irregularities and misappropriation or embezzlement of funds or fraud, the auditor or the auditing firm shall investigate and report the *modus operandi*, the entrustment, amount involved;

## u/s – 81(1)(a) – Audit Report Contents

(e) The auditor's report shall have:

(ii) Accounting irregularities and their implications on the financial statements to be indicated in detail in the report with the corresponding effects on the profit and loss

(iii) The functioning of committee and sub-committees of the societies be checked and if any irregularities or violation are observed or reported, duly fixing the responsibilities for such irregularities or violations.

(f) The remuneration of the auditor or auditing firm of a society shall be borne by the society and shall be as may be prescribed.



## u/s 81(1)(a) – Audit – Role of Registrar

(g) The Registrar shall maintain the list of societies district-wise, the list of working societies, the lists of societies whose accounts are audited, the list of societies whose accounts are not audited within the prescribed time and reasons therefor.

- The Registrar shall co-ordinate with the societies and the auditors or auditing firms and ensure the completion of audit of accounts of all the co-operative societies in time every year.

## u/s 81(2) – Audit to Cover

(2) The audit under sub-section (1) shall be carried out as per Accounting Standards as may be notified by the State Government from time to time and shall also include examination or verification of the following items, namely:-

(i) Over dues of debts, if any;

(ii) Cash balance and securities and a valuation of the assets and liabilities of the society;

## u/s 81(2) – Audit to Cover

(iii) Whether loan and advances and debts made by the society on the basis of security have been properly secured and the terms on which such loans and advances are made or debts are incurred are not prejudicial to the interest of the society and its members;

(iv) Whether transactions of the society which are represented merely by book entries are not prejudicial to the interest of the society;

(v) Whether loans and advances made by the society have been shown as deposits;

## u/s 81(2) – Audit to Cover

(vi) Whether personal expenses have been charged to revenue account;

(vii) Whether the society has incurred any expenditure in furtherance of its objects;

(viii) Whether the society has properly utilized the financial assistance granted by government or Government undertakings or financial institutions, for the purpose for which such assistance was granted;

(ix) Whether the society is properly carrying out its objects and obligations towards members.

## u/s 81(2A) – Govt to order for Cost audit

(2A) Where, in the opinion of the State Government, it is necessary in the public interest or in the interest of the society to do so in relation to any society or class of societies for ensuring management thereof in accordance with sound business principles or prudent commercial practices, the State Government may, by order, direct that such society or class of societies shall prepare and maintain its accounts in the form determined by the State Government, from time to time and that cost audit or performance audit or both, of such society or class of societies, as may be specified in the order, shall be conducted.

## u/s 81(2B) – Govt to order for Cost audit

(2B) where any order is issued under sub-section (2A), the society shall cause its to be conducted by a cost accountant who is a member of the institute of Cost and Works Accountants of India constituted under section 3 of the Cost and Works Accountants Act, 1959.

## u/s 81(3) – Power of the Auditor

(3) (a) The Auditor shall, for the purpose of audit, at all times have access to all the books, accounts, documents papers, securities cash and other properties belonging to, or in the custody of, the society, and may summon any person in possession or responsible for the custody of any such books, accounts, documents, papers, securities, cash or other properties, to produce the Same at any place at the headquarters of the society or any branch thereof

## u/s 81(3) – Audit by Flying Squad

(3) (b) If the Registrar has reason to believe that there exists an element of fraud, misapplication of funds, manipulation of the accounts and the accounts of the society are likely to be tampered with, thereby causing loss to the society, he shall be competent to depute Flying Squad to a society or societies for examination of books, records, accounts, and such other papers and for verification of cash balance. The report of the Flying Squad shall be treated as sufficient evidence for further action, if any.



## u/s 81(3) – Test Audit by Registrar

(3) (c) If it is brought to the notice of the Registrar that the audit report submitted by the auditor does not disclose the true and correct picture of the accounts, the Registrar or the authorized person may carry out or cause to be carried out a test audit of the accounts of such society.

The test audit shall include the examination of such items as may be prescribed and specified by the Registrar in such order.

## u/s 81(4) – Furnish info to Auditor

(4) Every person who is, or has at any time been, an officer or employee of the society, and every member and past member of the society, shall furnish such information in regard to the transactions and working of the society as the Registrar, or the person authorised by him, may require.

## **u/s 81(5) – Rights of Auditor**

(5) The auditor appointed under sub-section (1) shall have the right to receive all notices and every communication relating to the annual general meeting of the society and to attend such meeting and to be heard thereat, in respect of any part of the business with which he is concerned as auditor.

## **u/s 81(5A) - Impound Books**

(5A) If, during the course of audit of any society, the auditor is satisfied that some books of accounts or other documents contain any incriminatory evidence against past or present officer or employee of the society the auditor shall immediately report the matter to the Registrar and, with previous permission of the Registrar, may impound the books or documents and give a receipt thereof to the society.

## **u/s 81(5B) – Audit Report**

(5B) The auditor shall submit his audit report within a period of one month from its completion and in any case before issuance of notice of the annual general body meeting, to the society and to the Registrar in such form as may be specified by the Registrar, on the accounts examined by him and on the balance sheet and profit and loss account as on the date and for the period up to which the accounts have been audited, and shall state whether in his opinion and to the best of his information and according to the explanation given to him by the society they said accounts give all information required by or under this Act and present the true and fair view of the financial transactions of the society.

# u/s 81(5B) Proviso- Specific Report

(5B) Provided that, where the auditor has come to a conclusion in his audit report that any person is guilty of any offence relating to the accounts or any other offences, he shall file a **specific report** to the Registrar within a period of 15 days from the date of submission of his audit report.

The Auditor concerned shall, after obtaining written permission of the Registrar, file a **First Information Report of the offence. The Auditor who fails to file First information Report shall be liable for disqualification and his name shall be liable to be removed from panel of auditors, and he shall also be liable to any other action as the Registrar may think fit:**

## u/s 81(5B) Proviso- Special Report

(5B) Provided further that when it is brought to the notice of the Registrar that the Auditor has failed to initiate action as specified above, the Registrar shall cause a First Information Report to be filed by a person authorized by him in that behalf: Provided also that, on conclusion of his audit, if the auditor finds that there are apparent instances of financial irregularities resulting into losses to the society caused by any member of the committee, or officers of the society or by any other person, then he shall prepare a Special Report and submit the same to the Registrar along with his audit report. Failure to file such Special Report would amount to negligence in the duties of the Auditor, and he shall be liable for disqualification for appointment as an auditor or any other action as Registrar may think fit.

## u/s 81(6)& (7)- Re-Audit

(6) If it appears to the Registrar, on an application by a society or otherwise, that it is necessary or expedient to re-audit any account so the society, the Registrar may by order provide for such re-audit and the provisions of this Act, applicable to audit of accounts of the society shall apply to such re-audit.

(7) Special audit of the Co-operative Bank if requested by the Reserve Bank of India shall be conducted and report thereof shall be submitted to the Reserve Bank of India under intimation to the Registrar along with the Special Audit Report.



**PROVISIONS OF RULE 69 OF  
THE MCS RULES 1961  
REGARDING THE AUDIT.**

## **Rule 69(1) (a) :**

The audit of accounts of the societies shall be conducted by the auditor or auditing firm appointed by the society in its annual general body meeting within the period specified in the Act, from the panel of auditing firms or auditors whose names are listed as on the date of annual general body meeting and is approved by the State Government or authority authorized in this behalf.

*Explanation .—For the purpose of this rule, Audit shall include annual, test, cost or performance, special and re-audit.*

## **Rule 69(1) (b)**

Audit of the society shall be completed within four months from the close of the financial year and the report, also in Compact Disc shall be submitted to the society and the Registrar as specified in sub-section (5B) of section 81 of the Act, and also Part A of audit report, audit certificate and audited financial statements shall be uploaded by auditor on official website of Co-operation Department :

Provided that, Apex Societies shall submit copies of audit report as specified by the Registrar to be laid before the State Legislature

**Rule 69(1) (c) :** Every apex society shall submit to the Registrar, required copies of audit memorandum in both Marathi and English, in print and compact disk form within sixty days from receipt of audit memorandum from the auditor of the society for each financial year. The Registrar shall submit these copies of audit memorandum received from such society to the State Government to be laid before the State Legislature :

Provided that, if any apex society fails to submit required copies of audit memorandum as mentioned in clause (c) of this sub-rule in due time, the said society shall submit reasons thereof in writing to the Registrar. The Registrar shall submit reasons in writing received from the said society to the State Government to be laid before the State Legislature.

## **Rule 69 (1)(d)**

Before appointing the auditor or the auditing firm, the society shall ensure that, the auditor or the auditing firm proposed to be appointed for conducting its audit has not accepted the societies for audit exceeding the limit prescribed under the Act.

## **Rule 69 (1)(e)**

Qualifications and experience of the auditor shall be as specified in Explanation - I to sub-section (1) of section 81.

## **Rule 69(1) (f)**

The Registrar shall prepare, declare and maintain the panel of auditors and auditing firms from time to time in the following manner,—

(i) The Registrar shall call applications before the specified date as declared in the notice for empanelment from eligible auditors and auditing firms by a public notice to be displayed on the official website of the State Government and in any other mode, if required. Such notice shall also be published on the notice board of the office of the Registrar and District Deputy Registrars.

(ii) Every applicant shall submit only one application to the office of the concerned District Deputy Registrar of the District, where he ordinarily resides.

(iii) Applications received shall be scrutinized by the Committee presided over by the District Deputy Registrar consisting of the District Special Auditor of the District, representative of the Chartered Accountants of the District, representative of the Certified Auditors of the District as members and the Assistant Registrar (Administration) of the District shall function as Member Secretary of the said committee.

*(iv) After scrutiny, the District Deputy Registrar shall submit list of eligible applicants to the Registrar along with their applications and documents. The Registrar may scrutinize the applications recommended by the District Committee.*

*(v) Any aggrieved applicant may approach to the Grievance Redressal Committee headed by the Divisional Joint Registrar, Divisional Joint Registrar (Audit), as member and Divisional Deputy Registrar of the Division shall function as Member Secretary of the said Committee and the decision of the Committee shall be final.*



(vi) The Registrar shall cause to display a approved list of auditors and auditing firms panel on the official website of the Government.

(vii) the Registrar shall classify the societies and auditors for the purpose of audit in the following manner, namely:- A, B and C types.

# 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.

# **Rule 69**

**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 Society
	Joint Registrar (Audit) and Special Auditor Class 1 who has completed probation period successfully

# TABLE B

Class	Description of Auditors
B	<p>Chartered Accountant having at least one year experience in audit of Co-operative Societies.</p> <p>Special Auditor Class 2 &amp; Auditor Grade 1 who has completed probation period successfully</p>

# 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 has 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.**

# **CLASS A SOCIETIES**

---

- 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-op Spinning Mill Federation**
- 15. Maharashtra State Co-op 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.**



# **CLASS A 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.**

# **CLASS A SOCIETIES**

---

- 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)**

# **CLASS B SOCIETIES**

---

- 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.**

# **CLASS B SOCIETIES**

---

- 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.**

# **CLASS C SOCIETIES**

---

- 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.**

# **CLASS C 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.

## **Rule 69(1) (g) : Criteria for Removal of Auditors.**

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

(i) 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 meeting ;

(ii) not-disclosure the true and correct picture of accounts as specified in clause (c) of sub-section (3) of section 81 ;

## **Rule 69(1) (g) : Criteria for Removal of Auditors and Duties to be Performed to remain in the Panel**

**(i) non-submission of audit report as specified in subsection (5B) of section 81.**

- Sec 81(5B) Specifies :
- Submit AR within 1 month or before issue of AGM notice.
- AR to be in such form as specified by the Registrar,( Audit Manual and Circulars )
- AR to state whether accounts give all information required by or under [this Act](#) and present the true and fair view of the financial transactions of the society. (Sec 66 to 70 and Rules 65 and books and records as per Bye-laws)

## **Rule 69(1) (g) : Criteria for Removal of Auditors and Duties to be Performed to remain in the Panel**

**(i) non-submission of audit report as specified in subsection (5B) of section 81.**

- File to registrar : Specific Report within 15 days of submitting AR ( about Fraud/ Misapplication/ Manipulation etc ) , if AR mentions any person is guilty of any offence relating to the accounts or any other offences,.
- The Auditor to File and FIR (**First Information Report**) **of the offence** ,after obtaining written permission of the Registrar. If failed , **liable to be removed from panel of auditors & any other action as the Registrar may think fit:**

## **Rule 69(1) (g) : Criteria for Removal of Auditors and Duties to be Performed to remain in the Panel**

**(i) non-submission of audit report as specified in subsection (5B) of section 81.**

- File to registrar : Special Report with AR, if the auditor finds that there are apparent instances of financial irregularities resulting into losses to the society caused by any member of the committee, or officers of the society or by any other person. ( for E.g refund of shares in violation of Rules 23 of MCS Rules)
- Failure to file such Special Report would amount to negligence in the duties of the Auditor, and he shall be liable for disqualification for appointment as an auditor or any other action as Registrar may think fit.

## **Rule 69(1) (g) : Criteria for Removal of Auditors and Duties to be Performed to remain in the Panel**

**(ii) not-disclosure the true & correct picture of accounts as specified in cl. (c) of sub-sec (3) of sec. 81.**

- Section 81(3)(c) Specifies Test Audit by Registrar : If AR does not disclose the true and correct picture of the accounts ( As per Accounting Standards and circulars ), the Registrar or the authorized person may carry out or cause to be carried out a test audit of the accounts of such society.
- The test audit shall include the examination of such items as may be prescribed and specified by the Registrar in such order.
- ( The DSA's have been authorised by circular dated 22/8/2015 to Scrutinize AR with Annual Returns filed u/s 79(1A), Scrutiny of Audit Rectification filed u/s 82 and during inspection U/s 89A)

## **Rule 69(1) (g) : Criteria for Removal of Auditors and Duties to be Performed to remain in the Panel**

**(iii) 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 sub-section (1) of section 81**

- The society shall cause to be audited its accounts at least once in each financial year and
- cause it to be completed within a period of four months from the close of financial year to which such accounts relate and
- in any case before issuance of notice of the holding of annual general body meeting, ( Rule 61 Submit AR in 1 month of Audit or before issue of notice for AGM )

(iv) 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 ; ”

( As per Section 81(5B) of the MCS Act, 1960 and various circulars )

(v) failure to file special report to the Registrar if any ;

( As per Section 81(5B) of the MCS Act, 1960 and various circulars )



(vi) failure to file the First Information Report, if required thereof;

( As per Section 81(5B) of the MCS Act, 1960 and various circulars )

(vii) non-submission of scrutiny of audit rectification report within 6 months to the society ;

(As per section 82 and Rule 73 of the MCS Rules and circular dated 22/8/2015)

(viii) 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 ;

( As per Section 81(3) of the MCS Act, 1960 )

## u/s 81(3) – Audit by Flying Squad

(3) (b) If the Registrar has reason to believe that there exists an element of fraud, misapplication of funds, manipulation of the accounts and the accounts of the society are likely to be tampered with, thereby causing loss to the society, he shall be competent to depute Flying Squad to a society or societies for examination of books, records, accounts, and such other papers and for verification of cash balance. The report of the Flying Squad shall be treated as sufficient evidence for further action, if any.

## u/s 81(3) – Test Audit by Registrar

(3) (c) If it is brought to the notice of the Registrar that the audit report submitted by the auditor does not disclose the true and correct picture of the accounts, the Registrar or the authorized person may carry out or cause to be carried out a test audit of the accounts of such society.

The test audit shall include the examination of such items as may be prescribed and specified by the Registrar in such order.

(ix) 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 ;

(x) if the auditor or his family member is employee or ex-employee of the concerned Co-operative society ;

(xi) 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 ;

(xii) if the auditor or his family member, as specified under explanation (I) of sub-section (2) of section 75 of the Act, is committee member of the concerned co-operative society ;

(xiii) 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 ;

( As per section 81 (1) (a) of the MCS Act, 1960 )

(xiv) if the auditor is family member of a employee of the department of co-operation:”

**Rule 69 (2) has been  
deleted.**

**Related to do the audit of  
Pending audits.**

**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
  - ✓ Capital redemption fund
  - ✓ Provision for depreciation in Investment
  - ✓ Provision for O.I.R.
  - ✓ Provision for N.P.A.



# Section 73 C A

---

- ❖ **If he is defaulter to society.**
- ❖ **A director become disqualified if he defaults payment of loan on due date. He also become disqualified if he has taken an advance or anamat or he has taken goods on credit and it is not paid within 30 days from the date of demand by the society or the date on which he has taken advance whichever is earlier.**
- ❖ **If he has committed breach of Co-operative discipline.**

# Section 73 C A

---

- ❖ **If he has been classified as non-active member under section 26 (2).**
- ❖ **If he carries on the business carried by society.**
- ❖ **If he has been held responsible under Section 79 or 88.**
- ❖ **If he has incurred any disqualification under the Act & Rules.**
- ❖ **If he is salaried employee of any society.**
- ❖ **If he has more than two children.**
- ❖ **If he is guilty for any offence under section 146 & convicted under section 147.**

# Rule 65

---

## ❖ Society shall keep the following book of accounts :-

- ✓ Member Register
- ✓ Share Register
- ✓ Minute book of Annual General Body Meeting.
- ✓ Minute book of Annual Board of Directors Meeting.
- ✓ Cash Book.
- ✓ General Ledgers.
- ✓ Individual Ledgers
- ✓ Stock Register
- ✓ Property Register

# **Rule 107 (a) :-**

## **Travelling expenses of Directors.**

---

- ❖ Chairman or Vice Chairman of federal 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 Federal society, State level society, Sugar factory, Spinning mill & society whose paid up share capital is 50 crore or more can travel by Railway first class. 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.

# **Section 28 :-**

## **Restriction on holding shares**

---

- A member can not hold shares more than Rs.20,000/-

# 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 audited balance sheet.

<b>Value per share =</b>	<b>Networth</b>
	No. of shares.

<b>Net worth =</b>	<b>Paid up share capital + Free Reserves - Accumulated loss - shortfall in provisions</b>
--------------------	---

# Rule 23

---

- ❖ 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.

# Section 44 A

---

- ❖ Urban Co-operative banks cannot recover as interest more than principal in respect of loan granted for agricultural purpose.
- ❖ In case of non-agricultural loan upto Rs.10,000/-, Urban Co-operative Bank cannot recover as interest more than principal.



# Section 43 Restriction on borrowing

---

- ❖ 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 Government.
- ❖ Not applicable to C.C.S.E.

# **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**

# 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 (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.

# **SPECIAL REPORT.**

---

**Report may be prepared by the auditor giving the following details in his report:**

- i. Names of the parties who have involved in the offence.
- ii. Amount of damages to be charged from each person or group of persons.
- iii. Offences suspected, with documentary proof.

# SPECIAL REPORT.

---

- iv. Relevant provisions of the bye-laws of the society, Co-op Societies Act And Rules & other laws if any be mentioned.
- v. Proof as to responsibility & authority as per bye-laws.
- vi. Date or period when such offence is occurred.
- vii. Documents & statements in support of the charges framed.
- viii. Auditors conclusions regarding the offence.



# **AUDIT REPORT, AUDIT RECTIFICATION REPORT, AUDIT CLASSIFICATION**

---

- **Audit Report & Audit Memorandum.**
- **Audit Classification – Points to be considered.**
- **Audit Rectification Report.**

# AUDIT REPORT & AUDIT MEMORANDUM.

---

## Meaning Of Audit Report.

Audit report should include remarks regarding:

- i. Formation of capital.
- ii. Progress of business & result of business in relation to.
- iii. Scrutiny & analysis of financial position as indicated.
- iv. Other remarks regarding administration and social impact.

# SUMMARY OF AUDIT MEMORANDUM

---

Summary may be prepared giving in short the observations regarding:

- i. Financial position of the society.
- ii. Observation of co-operative principles by the society.
- iii. Management & account books.
- iv. Position of over dues, doubtful & bad debts & irregular expenses & other recoveries.
- v. Serious objections taken in the audit memo regarding infringement of provisions of Act, rules & bye-laws.

# **AWARD OF AUDIT CLASSIFICATION**

---

**Classification of societies may be made on the following principles:**

- 1) Observation of co-operative principles in the working of the society.
- 2) Financial position – Funds & their legal investment beneficial to society.
- 3) Business & turnover in quantity as well as beneficial to members.

# AWARD OF AUDIT CLASSIFICATION

---

- 4) Management & Control – staff of the society – observation of rules & disciplines – qualifications of staff & maintenance of records.
- 5) Observance of provisions of Act, Rules & bye-laws.
- 6) Recovery of overdue-debts.
- 7) Rectification of audit objections.

# AUDIT RECTIFICATION REPORT

---

- Section 82 of the M.C.S. Act, requires every society to explain to the Registrar within 3 months of the receipt of the audit report.
- It is the responsibility of the Auditors to call for the audit rectification report.
- To review the action taken by the society to the Administrative officer.
- It is the responsibility of the supervising unions & other federal bodies to which these societies are affiliated.

# AUDIT RECTIFICATION REPORT

---

- The auditor has to forward the rectification reports to the District Dy. Registrar or Divisional Joint Registrars.
- The final action will be taken by the Dist. Dy. Registrar.

# **An Illustrative Format of Report of the Auditor of Co-operative Society**

---

- FORM No. N-2

[See Section 81 and rule 69 (3)]

## **INDEPENDENT AUDITOR'S REPORT**

To

The Chairman/Secretary/Chief Executive Officer

The \_\_\_\_\_ Co-operative Society Ltd,

Address, City Name

Ref. :- Appointment Letter Reference No. \_\_\_\_\_

Dated \_\_\_\_\_



# Report on the Financial Statements as a Statutory Auditor:

1. We have audited the accompanying financial statements of The \_\_\_\_\_ Co-operative Society Ltd., which comprise the Balance Sheet as at 31st March 20XX and the Statement of Profit and Loss / Income & Expenditure for the year ended, and **a summary of significant accounting policies and other explanatory information incorporated in these financial statements** of the Society alongwith its Branches audited by us for the period 1st April 20YY to 31st March 20XX. \*

# Management's Responsibility for the Financial Statements

2. Management is responsible for the preparation of these financial statements in accordance **with Maharashtra Co-operative Societies Act, 1960 & Rules there under.**

This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of the financial statements that are **free from material misstatement, whether due to fraud or error.**

# Auditor's Responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the applicable Standards by The Institute of Chartered Accountants of India and under the MCS Act.

Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Society's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

## Opinion

6. In our opinion and to the best of our information and according to the explanations given to us, the said accounts together with the notes thereon give the information required as per the Maharashtra Co-operative Societies Act 1960 and the Maharashtra Co-operative Societies Rules 1961, and any other applicable Acts, and or circulars issued by the Registrar, in the manner so required for the society gives a true and fair view in conformity with the accounting principles generally accepted in India:

*(i) in the case of the Balance Sheet, of the state of affairs of the society as at 31<sup>st</sup> March 2\_\_\_;*

*(ii) in the case of the Statement of profit and loss / Income & Expenditure of the profit/loss for the year ended on that date; and*

# **Report on Other Legal and Regulatory Matters**

7. The Balance Sheet and the Profit and Loss Account have been drawn up in accordance with the provisions of the Maharashtra State Co-operative Act.

## 8. We report that :

*(a) We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit and have found them to be satisfactory.*

*(b) The transactions of the Society, which have come to our notice, have been within the powers of the Society.*

9. In our opinion, the Balance Sheet and Profit and Loss / Income & Expenditure Account comply with applicable Accounting Standards.



## 10. We further report that :

*(i) The Balance Sheet and Profit and Loss / Income & Expenditure Account dealt with by this report, are in agreement with the books of account and the returns.*

*(ii) In our opinion, proper books of account as required by law have been kept by the Society so far as appears from our examination of these books.*

*(iii) The reports on the accounts of the branches audited by branch auditors have been dealt with in preparing our report in the manner considered necessary by us.*

*(iv) for the year under audit, the society has been awarded “\_” classification*

**Signature**

**(Name of the Member Signing the Audit Report / Name of Auditor)**

**(Designation)**

**Membership Number**

**Firm Registration Number**

**Audit Panel Number**

**Place of Signature:**

**Date of Report:**

***Note :- in case the auditor have not audited all branches or taken assistance of other auditor or branches are audited by another auditor appointed by bank, following lines should be inserted in above report.***

**\*These unaudited branches account for \_\_\_\_\_ per cent of advances, \_\_\_\_\_ per cent of deposits, \_\_\_\_\_ per cent of interest income and \_\_\_\_\_ per cent of interest expense.**

FORM 'O'

*(See sections 81, 82, 87 and rule 73)*

**Rectification report under section 82/87**

Date of Audit : Period covered :

\_\_\_\_\_

No. and date of order under section 81/83 :

\_\_\_\_\_

Name and designation of person carrying out audit,  
inquiry or inspection:

..... Co-operative Society, for the  
year .....

## **FORM 'O' (See sections 81, 82, 87 and rule73)**

1	2	3	4	5
Serial No. of the objection in the Audit Memo or report of the Officer carrying out inquiry or inspection	Observations made by the Auditor or officer carrying out inquiry or inspection	Explanation of the society and remarks regarding action taken by it to rectify the irregularities and implement the suggestion made by the Auditor or Officer carrying out inquiry or inspection	No. and date of the resolution of the committee approving the report	Remarks of the auditor

# Co-op Enterprises & Co-op Stakeholders



**Let us be Partner in Nation Building**

**CA.Ramesh S. Prabhu, FCA, CISA(USA)**

**What is all this empowering us to do? Innovate, Get involved & Solve social problems for financial inclusion and better India through Co-ops!**

**Thank you for Getting  
involved in the discussion!**

**CA RAMESH PRABHU ,**