

Section 81 (1)(e)

Does audit include investigation?

- *The auditor's report shall have,-*
 - i. All particulars of the defects or the irregularities observed in audit & in case of financial irregularities & misappropriation or embezzlement of funds or fraud , the auditor shall investigate & report the modus operandi, the entrustment (?) & amount involved.

Reworking of P & L

- 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

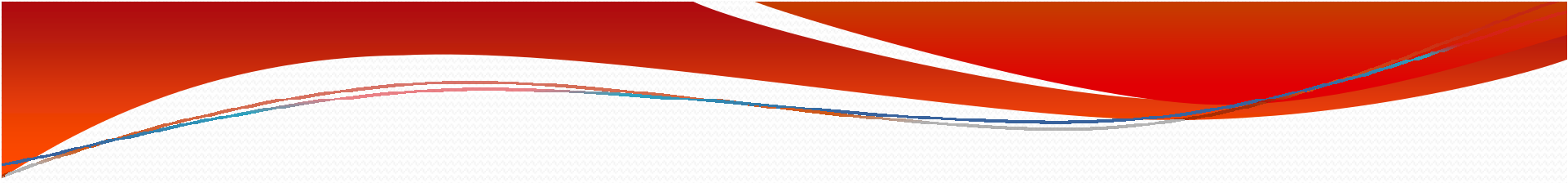
Beyond Accounts

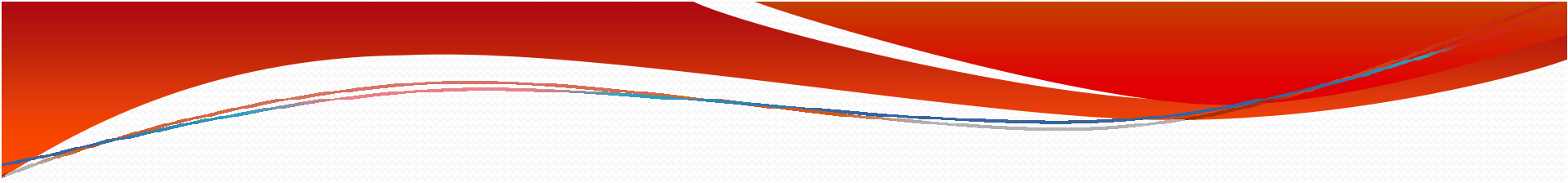
- iii. The functioning of the committee & sub-committees of the societies be checked & if any irregularities or violations are observed / reported, duly fixing the responsibilities for it
(Sec 73 : recording of dissenting opinion, 73 AAA for max & min directors 73B & 73C for reservations, 73CA for disqualifications, RBI circulars on B.O.D)

Section 81 (2)

Duty List is Inclusive/illustrative

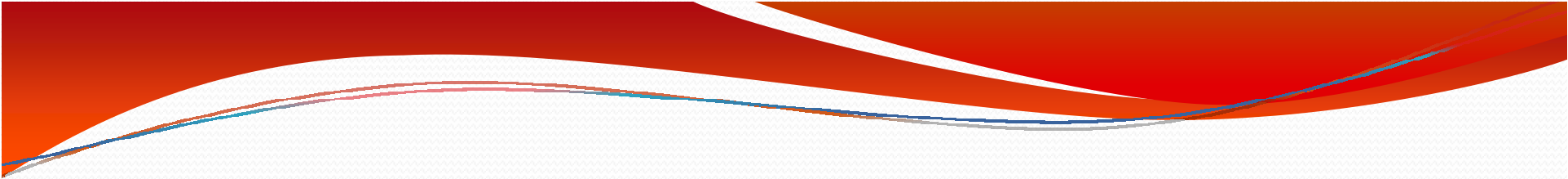
- The audit under sub section (1) shall be carried out as per Auditing Standards notified by the State Govt. from time to time & shall also include exam or verification of the following items, namely :-

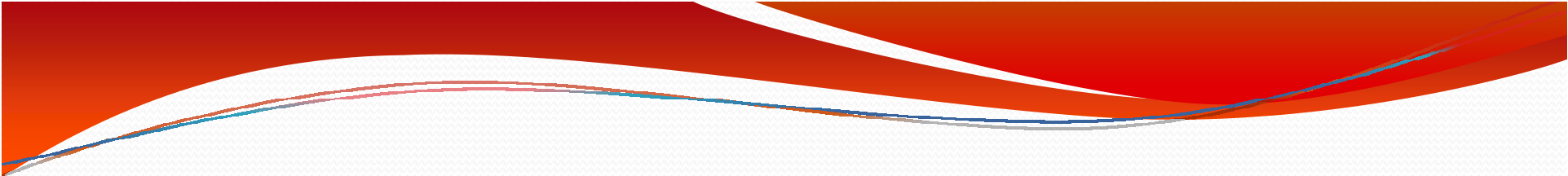
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- i. Over dues of debts, if any
(Over dues need not be only of loans & advances. *All moneys due are to be taken into consideration*)
 - ii. Cash balance & securities, and valuation of the assets & liabilities.
(Revaluations have been done by many co-op banks);



iii. Whether loan & advances & debts made by the soc on the basis of security, have been properly secured & the terms on which these are made /debts are incurred are not pre- judicial to the int. of the society & its members;

(Adequate stamp duty, ROC & other charges/liens, worthiness, margins, guarantors, term, membership etc. Also see RBI Circular for Max amt of unsecured loan & Loans to nominal members etc.)

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- iv. Whether transactions of the society which are represented merely by book entries are not prejudicial to the int. of the society;
(BG/LC/W-off/Depr./Trf from reserves/BDDR etc.)
 - v. Whether loans & advances made by the society have been shown as deposits;
(These can be on asset side or on liab. side)
 - vi. Whether personal exp have been charged to revenue A/c;
(Of directors/staff/others. Specially see item no 5 to 7 of P&L and confirm with 3CD)

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- vii. Whether the society has incurred any exp in furtherance of its objects;
 - viii. Whether the society has properly utilized the fin. assistance granted by govt or Govt undertakings or F.I.s, for the purpose for which such assistance was granted; (*See sanction letters of NHB/NABARD/SIDBI etc*)
 - ix. Whether the society is properly carrying out its objects & obligations towards members. (*Sec 24 A - Co-op education & training*)

Section 81 (5B)

Unusual wording : but says don't work till the eve of AGM

- The auditor shall submit his audit report within 1 month from its completion & in any case before issuance of notice of the AGBM, to the society & to the Registrar in such form as may be specified, on the A/c examined by him & on the B/S & P& L A/c as on the date & for the period up to which A/c's have been audited. *(Completion by July end ,reporting by August end, AGM by Sept end with 14 days notice. So submit ideally much before 15 Sept)*

Check Disclosures reqd. under Act & Rules

- He shall state whether in his opinion & to the best of his info. & according to the expl. given to him by the Soc, the said A/c's give all info reqd by or under this Act & present the true & fair view of the fin. transactions of the Soc. (*Rule 62 for form N of final A/c, form Rule 61 talks about R & P A/c, B. R. Act Sec 29 prescribes format for banks, see RBI circular of 30/10/2002*)

You may need visit to police station

- Provided that, where the auditor has come to a conclusion in his report that any person is guilty of any offence relating to the A/c's or other offences, he shall file a "specific report" to the Registrar within a period of 15 days from submission of his audit report. The auditor shall, after obtaining written permission of the Registrar, file a F.I.R. of the offence.

Special but together

- Provided also that, on conclusion of his audit, if the auditor finds that there are apparent instances of Fin. irregularities resulting into losses to the Soc. caused by any member of the committee or officers of the soc. or by any other person, then he shall prepare a special report & submit the same to the registrar “along with” his audit report.

Draft Rule 69 (1)(j) : It is titled “Procedure for appointment”

*...Though no place provided for
this in main report N-1*

- The report of the auditor or auditing firm shall comprise the particulars as specified in clause (e) of the sub section (1) of section 81 of the Act.

Draft Rule 69 (2)

... This mayn't always mean that you are lucky...may sail in same boat

- The audit under sec 81 shall in all cases extend back to the last date of the previous audit & shall be carried out up to the last date of the Co-op year immediately preceding the audit *(There are cases where auditors could not complete the audits of earlier years. Letter by Co-op dept. to WIRC was on the web site)*

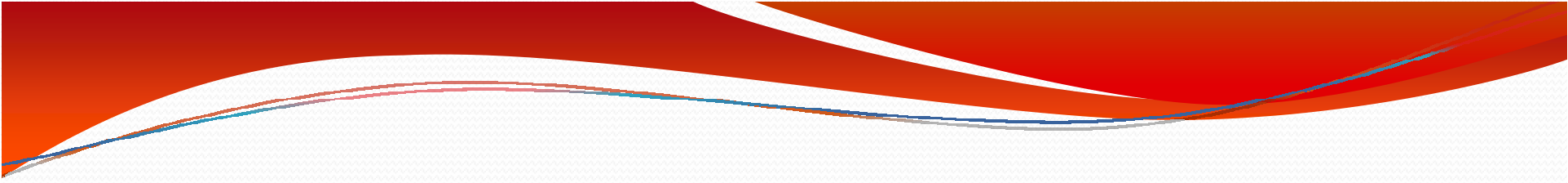
Draft Rule 69 (3)

From Report ... To Memorandum

- The auditor shall submit an audit memorandum to the soc. & to the Registrar in the form specified by the Registrar, for co-op. bank in Form N-1 & for other class of societies in Form N-2, with regards to the A/c's ,B/S and P & L A/c examined by him as on the date & for the period up to which the A/c's have been audited.

Not a good drafting: Anyway, Sec 81 (5B) repeated

- He shall state whether in his opinion & to the best of his info. & according to the explanation given to him, accounting policies adopted by the soc. (*are?*) as per AS laid down by the State Govt. or ICAI as the case may be ,the said accounts give all the info. required by the Act in the manner so required and true & fair view,-

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- i. In the case of the B/S, of the state of societies affairs as at the end of the fin. year or any other subsequent date up to which the A/c's are made up & examined by him, and
 - ii. In the case of the P & L A/c , of the Profit or loss for the fin year or the period covered by the audit, as the case may be.

From better.. To good or To bad

- While certifying the profit or loss of the society, Auditor shall quantify the effect of shortfall in various provisions, like NPA, overdue Int., depreciation & any other provision relating to exp. over profit or loss and state clearly that, after considering effect of all prov. whether there is profit or loss to the Soc.

Draft Rule 69 (4)

Say that you have done it

The audit memorandum shall state:-

- i. Whether the auditor had obtained all the information & explanations which, to the best of his knowledge & belief, were necessary for the purpose of his audit;

A/c as per Act , Rules, Bye laws

- ii. Whether in his opinion proper books of A/c, as required by the Act, rules & the by-laws of the soc. have been kept by the society, so far as it appears from the examination of these books; *(See rule 65)*
- iii. Whether the B/S and P & L A/c examined by him are in agreement with the books of A/c & returns of the soc, and gives true & fair view of state of affairs. *(Rule 66 refers to RBI returns & Rule 67 for yearly return in form Y to registrar)*

If (A) is “yes”, hope (B) is “no”

- iv. Whether the accounting standards adopted by the society (A) are consistent with that laid down by the State Government or the authority authorized in this behalf, or the I C A I , as the case may be, & (B) has no adverse effect on the accounts and financial status of the society.

Draft Rule 69 (6)

Breach List

The audit memorandum shall also contain schedules with full particulars of :-

- i. All transactions which appear to be contrary to the provisions of the Act, the rules or the by-laws of the society;

Do they forget, mis-spend, or forgo?

- ii. All sums which ought to have been, but have not been brought into A/c by the society;
- iii. Any material impropriety or irregularity in the exp, or in the realization of moneys due to the society;
- iv. Any money or property belonging to the society which appear to the auditor , to be bad or doubtful debt; and



Wait..... Not over yet

- v. Any other matters specified by the Registrar in this behalf.
- vi. Effects of changes in accounting policies.

Draft Rule 69 (7)

*Cut it short... From
memorandum... to summary*

- The summary of audit memorandum as prepared by auditor shall be read out in a AGBM. The audit memorandum together with its accompaniments shall be open to inspection by any member of soc.

Draft Rule 69 (9)

Make the Mark Sheet & award the grade

- On completion of his statutory audit, the auditor shall award an audit classification letter to the society whose A/c's he has audited, in accordance with the instructions issued by the Registrar from time to time. (*See the latest instructions, confusions/communication gaps had prevailed*)

Draft Form N-1

Note this before you sign

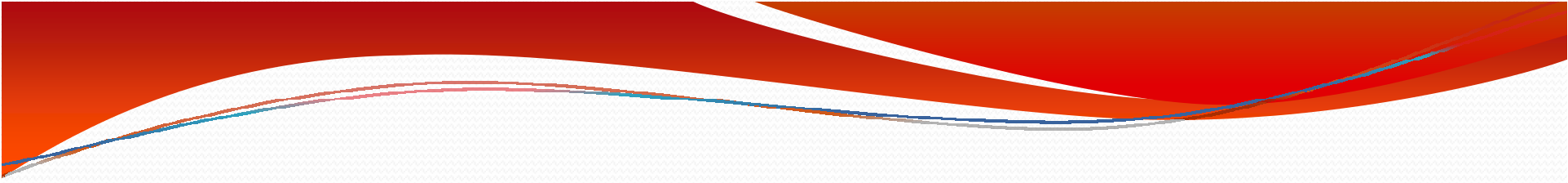
- It refers to Branches, Extension counters (?)
- It refers to MCS Act, MCS rules, B.R. Act, RBI/NABARD guidelines
- It ends with Audit classification
- Note the footnote “These unaudited branches” (?)
- Mention the % of unaudited amts of loans, deposits, Int. income & Int. exp. by inserting this in the main audit report.

And Now... offer your remarks on rectifications also

- Section 82 : It shall be responsibility of auditor to offer remarks on rectification report prepared by the society, item wise, till entire rectification is made by society, & submit his report to registrar.
- Section 73 : Within 3months of receipt of Audit Report, soc. to submit R.R. to Registrar & Auditor. In next 2 months auditor has to offer his remarks. Form 'O' is prescribed for R.R.

Reporting was like this....Till Last Year(As per order dt 30/03/13)

- 1) Reporting in form No 01 (*Common for all Co-op Soc.*)
- 2) Reporting in form No 07 (*Specially for banks*)
- 3) Auditor's comments related to items 01 to 09 of sec 81(2)

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- 4) Audit report with PART A (*General comments & about serious lapses, Fin. Irregularities & cases warranting F.I.R.)* PART B (*Analysis of B/S and P & L A/c*) & PART C (*Comment on specific areas) (Exact source of form & prescribed form not traceable ?)*)
 - 5) Main Report



6) Schedules/ Annex 01 to 06

1. Details of unsecured loans

2. Cases where indiv. expo limits(RBI stipulated) crossed.

3. Cases where group expo limits(RBI stipulated) crossed.

4. NPAs for which provision is inadequate

5. Loans for which reserves for Int receivable not created

6. Prov. For O/s exp required but not made.

7) Certificate of rating with detailed mark list

8) Certificate w.r.t. NPA (*Source/Prescribed form not traceable ?*)

9) L.F.A.R. (*Source & exact form not traceable ?*)

05 copies of all above, 1 each for

i) Society

ii) Registrar

iii) Dist. Special Auditor

iv) Lender F.I.s

v) Joint Registrar (Audit), State Level Audit Committee.

Imp sections of B.R. Act for Co-op Banks

Sec	Contents
6	Forms of business a co-op bank can do <i>(H.P/Leasing insurance notified)</i>
8	Trading in goods not allowed <i>(gold coins allowed)</i>
9	Not allowed to hold non-banking assets for more than 7 years <i>(Extension of period may be obtained from RBI)</i>



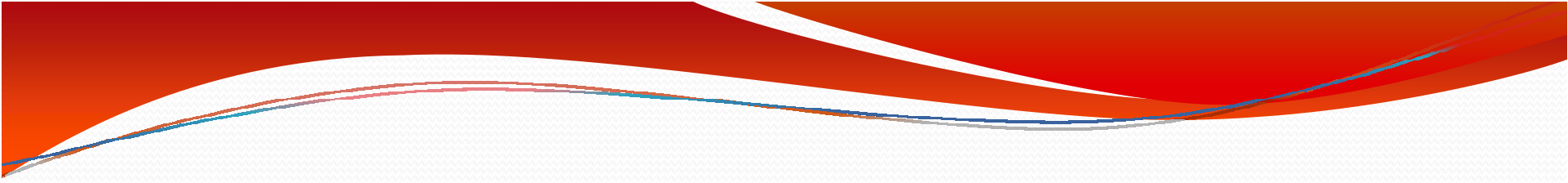
Sec Contents

14A No floating charge on own property
can be created (*RBI may allow in exceptional
cases*)

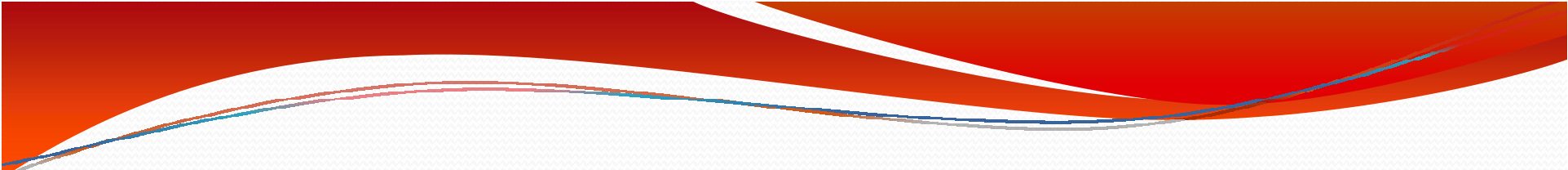
18 C.R.R.

20 No loans against own shares

20A No remission of debts payable by
present/post directors (*RBI 's prior
approval may be obtained in deserving cases*)



Sec	Contents
24	SLR
27	Monthly returns to RBI
29 & 31	Submission of copies of annual A/c's to RBI by 30 Sept. & publishing it in local newspapers by 31 Dec.



Compliances of the A/c Stds. Which may be checked in the presentation of final A/cs by UCBs (Particularly non-scheduled & smaller in size)

AS 03 : Cash flow statements

AS 10 : Details of gross block, etc.

AS 15 : Provision for employee benefits

AS 17 : Segment reporting

AS 22 : Disclose of accounting for tax & Def. Tax

Non compliance of above had been observed w.r.t. few Co-op banks.



***THANK
YOU***