

PROVISIONS RELATING TO AUDIT

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.
- ❖ 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.

- ❖ 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, enstrustment & amount involved.

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

Section 81 (2)

- ❖ Audit shall be carried out as per Auditing Standards notified by State Government.
- ❖ Audit shall include examination & verification of
 - i) Overdue debts.
 - ii) Cash balance & securities and valuation of assets & liabilities.
 - iii) Whether loans are properly secured & terms of loans are not prejudicial to the society or its members.

Section 81 (2)

- iv) Whether there are book entry transactions & if yes, whether they are prejudicial to the interest of society.
- v) Whether personal expenses are charged to revenue.
- vi) Whether loans have been shown as deposit.
- vii) Whether financial assistance from Govt./FI has been utilized for the purpose for which it has been granted.

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.

Specific Report for Fraud

- ❖ 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.

Special Report

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

Form of Audit Memorandum (Rule 69 (3))

- ❖ The auditor shall submit in respect of co-op. bank in form N1 & in other cases in form N2 audit memorandum to the society & to the Registrar with regard to the accounts, Balance sheet & P & L account.
- ❖ Auditor is required to state whether accounting policies adopted by society are in consistent with AS laid down by state Govt. or ICAI (Rule 69 (4))

- ❖ While certifying profit and loss of society, auditor shall quantify effect of shortfall in various provisions like NPA, OIR, depreciation, other expenses provisions over Profit or loss & state clearly that after considering effects of all provisions, whether there is profit or loss. (SA 700)
- ❖ Audit of society shall be completed within 4 months from close of the year & report also in compact Disk shall be submitted to society & registrar.
- ❖ Part A of audit report, Audit certificate & audited financial statements shall be uploaded by auditor on official website of co.op department.



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.
 - ✓ Provision for election expenses

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.

- ❖ 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

Books of Accounts

- ❖ 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.
 - ✓ Minute book for sub committee
 - ✓ Cash Book.
 - ✓ Day Book.
 - ✓ Bank Book.
 - ✓ General Ledgers.
 - ✓ Individual Ledgers
 - ✓ Stock Register
 - ✓ Property Register in form "XI"
 - ✓ Audit rectification register
 - ✓ Register for returns submitted in form "Y"
 - ✓ Register of auditors appointed and their written consent.

Rul 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.

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.

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 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.

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.

Criteria for Removal of Auditor (Rule 69 (1) g)

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.
- ❖ 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 sub-section (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 FIR.

- ❖ Non-submission of scrutiny of audit rectification report within 6 months to the society.
- ❖ If he is borrower & conducted audit of same society without disclosing said fact to society.
- ❖ If auditor or his family member is employee or ex employee of concerned society.
- ❖ If auditor or his family member is employee of Co.op department.
- ❖ If auditor or his family member is committee member of concerned society.
- ❖ If auditor or partner of audit firm is conducting internal/concurrent audit of concerned Co.op. society.

Section 82 – Audit Rectification Report

- ❖ After receipt of Audit report, society shall within 3 months submit audit rectification report to the registrar and to auditor concerned.
- ❖ Society has to place audit rectification report before next Annual General Meeting.
- ❖ Auditor concerned shall after his remarks on rectification report item wise till entire rectification is made by society and submit his report to the registrar.

- ❖ Registrar or the person authorized by him shall scrutinize audit rectification report and inform the society of such report within 6 months from the date of receipt thereof/
- ❖ If society fails, all members of committee shall be deemed to have committed offence under Section 146 and liable for penalty under Section 147 (Rs. 5000/-)