

## **AUDIT OF CO-OPERATIVE SOCIETIES**

### **Section 81 – MCS Act- 1960**

- ♦ **1(a)** – The society shall cause to be audited its accounts, at least once in each financial year and also cause it to be completed within a period of four months from the close of financial year to which such accounts relate, by Auditor or Auditing firm from a panel prepared by the Registrar and approved by the State Government or on authority authorize by it in this behalf, possessing required qualification and experience as may be prescribe, to be eligible for auditing accounts of Societies, appointed by the General Body of a society, as provided in sub section ( 2 A) of section 75 and shall lay such audit report before the Annual general body meeting. In case of apex Society the audit report also be laid before both Houses of the State Legislature as may be prescribe.

### **81(1)( e)**

The Auditor report shall have –

1. All particulars of the defects or the irregularities observed in the 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 enstrument and amount involved .
2. 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.
3. The functioning of the committee and sub-committees of the societies be checked and if any irregularities or violations are observed or reported, duly fixing the responsibilities for such irregularities or violations.

### **81(2)**

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

1. Over dues of Debts , if any
2. Cash balance and securities and a valuation of the assets and liabilities of the society.
3. Whether loans and advances and debts made by the society on the basis of security have been properly secured and the terms on which such loan and advances are made or debts are incurred are not pre-judicial to the interest of society and its members,
4. Whether transaction of the society which are represented merely by book entries are not prejudicial to the interest of society ,
5. Whether loans and advances made by the society have been shown as deposits,
6. Whether personal expenses have been charge to revenue account
7. Whether the society has incurred any expenditure in furtherance of its objects ,
8. Whether society has properly utilized the financial assistance by Govt. or any financial institutions

9. Whether the society is properly carrying out its objects and obligations towards members

**TEST AUDIT-**

Test Audit shall be conducted by the following circumstances ,

As per section 81 (3)(c) – If it is brought to the notice to the Registrar that the audit report submitted by the auditor does not disclosed 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 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.

**RE-AUDIT-**

**Re-** Audit shall be conducted by the following circumstances,

As per section 81(6) – If it appears to the Registrar, on an application by a society or otherwise, that it is necessary or expedient to be re-audit any accounts of the society the Registrar may by order provide for such re-audit and the provisions of this acts, applicable to audit of accounts of the society shall apply to such re-audit.

**SPECIAL REPORT-**

**Circumstances** in which special reports must be submitted – A special report should be submitted in respect of the following matters

1. Infructuous or objectionable expenditure , expenditure disproportionate to the financial position of the society or the importance of the occasion .
2. Activities undertaken which are not convergent with the byelaws, investments of funds against the provisions of section 70 of MCS Act. or in business not permitted by the byelaws.
3. Cases in which office bearers have entered into transactions , which have brought loss to the society and cases. In which they have taken advantage of fluctuations in markets and have benefited themselves, or occasioned , un warranted losses to the society.
4. Cases in which important provisions of the Act, Rules or bye-laws of the society have been infringed, such as failure to hold annual general meeting in time, irregularities in the election or appointment of officer-bearers, failure to hold committee meetings regularly, transaction of business without quorum, etc.
5. Imprudent and irregular advances of loans and cash credits, Benami loans, loans against inadequate or non-existing security, disproportionate loans to members of the committee an their relatives or certain influential members, etc.
6. Advances taken by the officers not accounted for or subsequently refunded in cash or debited to account. Temporary misappropriation of cash or other property of the society.

**Instruction for Preparation of special report-**

Special report should be submitted to the concern Registrar within 15 days from the date of submission of Statutory audit report. While submitting a special report, the auditor is required to pay attention of certain vital matters. In the first place, he should satisfy himself that circumstances exist which warrant submission of a special report or that there are matters which he considers important. Special report should be

restricted to important matters on which some administrative action is called for. Secondly, the auditor should have conducted thorough investigation and collected sufficient evidence to make out cases for civil or criminal liability to be fixed on the culprits.

**SPECIFIC REPORTS-**

Specific report should be submitted to the concern Registrar within the period of 15 days from the date of submission of his audit report as per section 81(5B). This report is for taking criminal action on the culprits or the persons who are guilty.

The object of the audit is to find out errors and frauds, as the standard auditing principles state. It is the primary duty of the auditor to find out the frauds, misapplication, misappropriations and misfeasance, during the course of audit. After searching the frauds and misappropriations auditor has to lodge criminal prosecution against the culprits. For lodging the complaint auditor is required to obtain permission from the Registrar.

The following are the offences which auditors of the co-operative societies generally come across during the course of the audit :-

<b><u>IPC Section</u></b>	<b><u>Nature of Offence</u></b>
381	Theft by clerk or servant of property in possession of master.
403	Misappropriation as dishonest appropriation or conversion for persons own use of property belonging to another.
405	Criminal breach of Trust- Whoever being in any manner entrusted with property, or with any dominion over property, dishonestly misappropriates or converts to his own use that property or dishonestly uses or dispossess of that property in violation of any direction of law prescribing the mode in which such trust is to be discharged, or of any legal contract, express or imply, which he has made touching the discharge of such trust, or willfully suffer any other person so to do, commits “criminal breach of trust”
408	criminal breach of trust by Clerk or Servant.
409	Criminal breach of trust by public servants, bankers, by merchant or agent etc.
415	Cheating
420	Cheating and dishonestly inducing delivery of property
424	Dishonest or fraudulent removal and concealment of property
463	Forgery
464	Making a false document
467	Forgery of valuable security-will etc.
468	Forgery for purpose of cheating
470	Forged document or electronic record.
471	Use of forged document or electronic record as genuine
477 (A)	Falsification of accounts

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