

*AUDIT OF TRANSACTIONS  
OTHER THAN ADVANCES*

# 1) Amended provisions regarding audit

## Section 81 :-

- Audit of Co-operative society shall be carried out by auditor or auditing firm from a panel prepared by Registrar & approved by State Government. Appointment of auditor to be done by General Body of society.
- Audit shall be completed within period of 6 months from closing of financial year and in any case before issuance of notice of Annual General Meeting.

# Qualification & Experience of Auditor :

- a) Chartered Accountant with at least 3 years experience of Co-operative audit & working knowledge of Marathi.
- b) Chartered Accountant Firm of more than one Chartered Accountant & experience of at least 3 years of Co-operative audit.
- c) Certified Auditor with 5 years of experience in Co-operative audit having degree and completed G.D.C.&A.

Government auditor : Graduate / Post

## Ceiling on number of audit :-

No auditor shall accept audit of more than 20 societies except societies having paid up share capital of less than Rs.1 lac.

## Section 75 (2 A) :-

- Every society shall appoint auditor or auditing firm from panel approved by State Government in this behalf in its Annual General Meeting & file in form of return name of auditor & his written consent within period of 30 days from Annual General Meeting.
- Same auditor shall not be appointed for more than 3 consecutive years.

## 2) Share Capital

Urban Co-operative Banks has to attain C.R.A.R. of 9%. It can achieve this

- By increasing members thereby increasing capital
- By ploughing back of profit & transfer to Reserve Fund more than statutorily required.
- By deducting from loans (2.5% in case of secured loan & 5% in case of unsecured loan) & transfer to share capital – share linking to borrowing

if required C.R.A.R. is not achieved then

- Urban Co-operative Bank has to transfer minimum 50% of its profit to Reserve Fund.
- It cannot declare dividend.

Restriction on Share holding

- A member of Urban Co-operative Bank can held shares upto Rs.5 lac.

Refund of Share Capital (Rule 23 of M.C.S.ACT)

If any member resigns or expeled, his shares capital shall be refunded by making

Value of Share =	Net worth
	Number of Shares

Net worth =	Paid up Share Capital + Free resources + Balance of Profit -- Shortfall in N.P.A. / other provisions -- Accumulated Loss
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Many Urban Co-operative Banks have refunded share capital without valuing shares.



### 3) Interest on Agricultural Advances

As per Reserve Bank of India's circular dated 26/08/2002 interest on agricultural advances must be

- Simple interest
- At annual rest.

If not recovered annually, then only to be capitalized.

## Agricultural advances include

- Crop loan (short term loan)
- Medium Term loans for agricultural purpose
- Long Term loans for agricultural purpose.

E.g. digging of well, purchase of tractor, pipeline, agricultural implements, land development, purchase of bullock etc.

## Damduppat Rule (Sec 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 (As per ordinance of Government of Maharashtra dated 14/02/2013)

## 4) Distribution of Profit

Urban Co-operative Bank can make distribution of Profit as under :-

- Minimum 25% to Reserve Fund.
- Minimum 10% to Building Fund.
- 2% of paid-up share capital uptill it becomes 9% of paid-up share capital to Dividend Equulisation Fund.

## 5) Head office – Branch Reconciliation

Auditor must enquire into outstanding entries pending for reconciliation more than 3 months.

Auditor must give attention to entries where branch has credited customers A/c. But corresponding credit entry from head office is not received, Which appears in branch reconciliation as “H.O. to credit”

## 6) Balancing of Books

Generally in small banks which are yet to computerize, there is difference in book balancing.

Auditor must see cutbook balance tallies with the balance as shown in balance sheet / General ledger Balance in case of

- Saving account.
- Current account.
- Recurring account.
- Fixed Deposit account.

## 7) Cash counting on Surprise basis

- Auditor must count cash of branches on surprise basis.
- Generally, opening cash should be counted.
- Cash of all branches in one city should be counted at the same time.
- Verify cash retention limit fixed by Head Office.
- Verify whether this limit is exceeded by branches.
- Verify cash transfer from branch to branch and branch to Head Office.

## 8) Restrictions on holding shares in other Co-operative Societies.

- Total investment in shares of Co-operative institutions other than C.C.B. and S.C.B. shall not exceed 2% of its owned funds (paid up share capital and reserves).
- The investment of bank in shares of any one Co-operative institution shall not exceed 5% of subscribed capital of that institution.



## 9) Recovery

- On an application by Urban Co-operative Bank for recovery of arrears of its dues, Registrar may grant certificate of recovery of arrears (Section 101).
- Certificate granted by Registrar shall be final & conclusive proof of arrears and shall be recoverable as on arrears of land revenue.
- Mode described for recovery of amount is under section 156 of M.C.S.Act. Vitthal Yadav Mhase Vs Amdar Balasaheb Thorat Nagri Sahakari Patsanstha Ahemadnagar.
- Urban Co-operative Bank resort to action for recovery either under securitization Act 2002 or

- By virtue of notification dated 28/05/2003 issued by Government of India under Section 2 (1) (c) (1) of Securitization Act 2002, Central Government has specifically included 'Co-operative Bank' to be bank for the purpose of Securitization Act 2002.
- Borrower can appeal / apply for revision to Divisional Joint Registrar against recovery certificate granted. (Section 154).
- No application for revision entertained, unless 50% of arrears is deposited.
- Revision Authority cannot relax in paying 50%

# 10) Certification of Balance Sheet & Profit & Loss Account.

- a) Auditor should verify classification of Loans & Advances and Provisions made for N.P.A. If he does not agree with classification done by Urban Co-operative Bank & Provisions, he should attach divergence statements in following format.

Sr. No.	Name of Borrower	Classification		Provisions		Excess	Shortfall
		As per Bank	As per Auditor	As per Bank	As per Auditor		
1	2	3	4	5	6	7	8

- b) Auditor should also examine whether provision for O.I.R. is correct or not. Is there any shortfall in O.I.R.
- c) Auditor should also examine provision for other expenses & liabilities & find shortfall. He should quantify total shortfall in provisions & he should make qualification in certificate itself & quantify effect on profit.

If as a result of shortfall in provision, profit is wiped out, then he should certify that Profit & Loss Account doesn't show true & fair view. Considering total effect, bank has incurred loss of Rs. So & So.

If by showing false profit, bank has distributed that profit & transferred to Reserve Fund, he should certify that the reserves are overstated by Rs.-----

If bank has paid dividend to members from this fictitious profit, he should make Administrative Special Report under Section

# 11) Awarding Audit Class to Urban Co-operative Bank

Upon completion of audit, auditor has to award audit class to Urban Co-operative Bank, which is very important. Depositors and members suppose the bank is best / better / good / bad depending upon classification. No member, No depositor reads audit report even though audit report is public document. They only rely on audit classification given by auditor.

Audit classification is appealable if bank does not agree with the audit classification. It can make appeal to Commissioner for Co-operation. While deciding the cases of appeal. I have observed that auditor has given marks to every point as per CAMELS rating but he has not written the ratio or result based on which he has given the marks. E.g. if net N.P.A. is 0% to

## 12) Discussion of draft audit report in Board of Directors Meeting

After completion of audit, auditor should inform manager to arrange for Board of Directors meeting & agenda notice must contain subject “Discussion of audit points for the year -----” specifically. Auditor should take one copy of notice of Board of Directors. He should attend meeting & discuss important points in Board of Directors meeting.



In form no.1 of audit report last reporting is whether you have discussed audit report in Board of Directors meeting. Some auditor writes there “ discussed with chairman & General Manger or Managing Director”. This is not expected.

## 13) Renewal before 31st march / Book entry transactions

Auditor should check year end transactions (25th march tot 31st march) to find out whether

- Fresh loan is given and old loan account is made Nil to avoid it becoming N.P.A.
- HYP Account is debited and interest / installment of term loan is shown as repaid, when there is no Drawing Power in HYP Account.

➤ Term loan given for 3 to 5 years period is renewed before completion of period of loan. Only cash credit Account should be renewed. But in some Urban Co-operative Bank's term loans are also renewed before expiry of the term loan.

Auditor has to report in Schedule 1-6, whether there are any book entry transactions which are detrimental to the interest of bank, depositors or members. Here auditor writes "see remarks". But there are no remarks anywhere in audit report. He has to mention " see remarks on Page \_\_\_\_\_ of part A, B or C of audit report"

# 14) Important Provisions of M.C.S. Act 1960 & Rules

## Rule 23:-

When a person ceases to a member of Society, Society shall refund his share amount after making valuation of shares. Valuation of shares to be done as **Net worth divided by No. of shares.**

If nominal value of shares is Rs.1,000/- & valuation as above comes at Rs.400/-. Then bank has to refund shares at Rs.400/- per share. But if valuation as above comes at Rs.1,300/- per share, share should be refunded by Rs.1,000/- per shares.

Without valuing shares, may Urban Co-operative Banks have refunded shares at Nominal value. There is loss to the bank to that extent. Auditor should make Administrative Special Audit Report under Section 88 of Maharashtra Co-operative Societies

## Rule 107 A :-

Only Chairman and Vice Chairman of State level society, Apex society, Sugar factory, Spinning mill can only travel by air. He has to attach air ticket to his bill.

## Section 28 :-

Member of Co-operative society can held shares up to Rs.20,000/-. Member of Urban Co-operative Bank can held shares up to Rs.5.00 lac. By share linking to borrowings, Urban Co-operative Bank can increase its capital. It can collect 2.5% of loan amount & 5% of loan amount as share money in respect of secured & unsecured loan respectively.

## Section 35 :- Expulsion of Member :-

Society can expel member if he is in persistent default to the society or if he acts detrimental to the interest of society, by passing resolution of General meeting by 3/4th majority present in meeting. Before expulsion, approval of Registrar is necessary.

Rule 65 :-

Books of Accounts to be maintained by society.

Rule 49 :- Writing off debts due to the society :-

- Certification by Auditor to be had.
- Resolution in General Meeting.
- Permission of Registrar if society is in C or D class.



*THANK YOU*