

***CO-OPERATIVE MANAGEMENT  
AND ADMINISTRATION***  
**VI SEMESTER**

**CORE COURSE: BCM6 B15**

**B.Com.**  
**Specialization – Co-operation**  
(2019 Admission onwards)

**CBCSS**



***UNIVERSITY OF CALICUT***

*School of Distance Education,  
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Malappuram - 673 635, Kerala.*



# **UNIVERSITY OF CALICUT**

## **School of Distance Education**

### **Study Material**

#### **VI Semester**

#### **Core Course (BCM6 B15)**

#### **B.Com. (Specilization-Co-operation)**

## **CO-OPERATIVE MANAGEMENT AND ADMINISTRATION**

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“The author(s) shall be solely responsible for the  
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## **MODULE 1**

### **MANAGEMENT OF CO-OPERATIVE SOCIETIES**

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The organisational character of co-operatives and the efficiency criteria of business have to be welded together as warp and woof of co-operative management.

A salient feature of co-operative management is that it is being managed on democratic basis. “Democratic management” is the key note of co-operation. Accordingly the management of a co-operative institution is vested in two wings viz., the general body and the managing committee. Two bodies are.

#### **Final authority in a cooperative society**

- The final authority in a co-operative society shall vest in the general body of members :
  - Provided that where the bye-laws of a co-operative society provide for the constitution of a smaller body consisting of delegates of members of the society elected or selected in accordance with such bye-laws, the smaller body shall, exercise such powers of the general body as may be prescribed or as may be specified in the bye-laws of the society.
- Notwithstanding anything contained in sub-section (2) of section 24 each delegate shall have one vote in the affairs of the society.

## **Annual general meeting**

- Every co-operative society shall, within a period of six months next after the dated fixed for making-up its accounts for the year under the rules for the time being in force, call a general meeting of its member for the purpose of -
  - Approval of the Programme of the activities of the society prepared by the committee for the ensuring year.
  - Election, if any, of the members of the committee other than nominated members subject to the provisions of section 31.
  - Consideration of the audit report and the annual report.
  - disposal of the net profit; and
  - Consideration of any other matter which may be brought forward in accordance with bye-laws.
- Provided that the Registrar may, by general or special order, extend the period for holding such meeting for a further period not exceeding three months.
- Provided further that, if in the opinion of the Registrar no such extension is necessary, or such meeting is not called by the society within the extended period, if any, granted by him, the Registrar or any person authorised by him may call such meeting in the manner prescribed, and that meeting shall be deemed to be a general meeting dully called by the society and the Registrar may order that the expenditure incurred in calling such a meeting shall be paid out of the

funds of the society or by such person or persons who in the opinion of the Registrar, where responsible for the refusal or failure to convene the general meeting.

- At every annual general meeting of a co-operative society, the committee shall lay before the society a statement showing the details of the loans, if any, given to any of the members of the committee during the preceding year.

### **Special general meeting.**

- The committee of a co-operative society may, at any time, call a special general meeting of the society and shall call such meeting within one month after the receipt of a requisition in writing from the Registrar or from such number of members or a proportion of the total number of members, as may be provided in the bye-laws.
- If a special general meeting of a co-operative society is not called in accordance with the requisition referred to in sub-section (1), the Registrar or any person authorized by him in this behalf shall have the power to call such meeting and that meeting shall be deemed to be a meeting called by the committee, and the Registrar may order that the expenditure incurred in calling such a meeting shall be paid out of the funds of the society or by such person or persons who, in the opinion of the Registrar were responsible for the refusal or failure to convene the special general meeting.

### **Managing committee**

As per Section 28(1) the general body of a co-operative society shall constitute a committee for a period not exceeding five years in accordance with Act, rules and Bye-laws and entrust the management, the affairs of the society to such committee. The

maximum number of members of the committee shall not exceed 15 and minimum is not less than 7 in the case of primary societies and 25 in other societies.

### **Adhoc Committee**

In case of new society, the person who have signed the application to register the society may appoint a committee to conduct the affairs of the society. This is known as adhoc committee. This committee will be in power for a period of 3 months from the date of registration. The registrar may extend the period of such committee if necessary.

### **Functions of managing committee**

- To formulate plans for the development of the society
- to frame policies, procedures etc for the attainment of the goals of the society.
- Building organisational structure and create proper climate for its successful working
- to take timely and appropriate decisions and also render directions and guidance for the effective implementation of these decisions.
- To exercise control over financial and administrative matters.
- To co-ordinate the various activities of the society

### **Powers of managing committee**

- election of office bearers
- admission of members and allocation of shares



- to raise necessary funds in the forms of deposits and loans
- to convene the general body meeting
- to arrange for the proper maintenance of accounts of the society
- to appoint, control and supervise the staff
- to constitute the sub committee
- to sanction transfer of shares and withdrawal of shares
- to decide on how to invest the funds of the society

### **Kerala State Co-operative Election Commission**

AS per G.O (P) No.11/2002/Co-op dated 16.01.2001 and G.O (P) No.52/2001/Co-op dated 07.03.2001 the Government have constituted the State Co-operative Election Commission and had started Functioning from march 2001 onwards. The State Co-operative Election Commission have to exercise the power of superintendence, direction, control and the conduct of election to the committee of all credit, Apex and federal Societies all over kerala.

### **Election and nomination of members of committees**

- The superintendence, direction and control of the preparation of the electoral rolls for, and the conduct of, elections of the members of the committees of such co-operative societies or class of co-operative societies as may be prescribed shall be vested in such returning officers not below the rank of gazetted officers as may be appointed by the Lieutenant-Governor in this behalf.

- The vote at such elections shall be by secret ballot.
- The term of office of the elected members of the committee shall be such, not exceeding three co-operative years including the co-operative year of their election, as may be specified in the bye-laws of the society.
- Provided that the elected members shall continue to hold office till their successors are elected or nominated under the provisions of the Act or the rules or bye-laws.
- No person shall be eligible to be elected members shall continue to hold office till their successors are elected or nominated under the provisions of Act or the rules or bye-laws.
- Notwithstanding anything contained in this Act, a person shall be disqualified for election as, or for being, the president, vice-president, chairman, vice-chairman, managing director, secretary joint secretary or treasurer of a committee -
  - if he has held any such office on a committee during two consecutive terms whether full or part,
  - if he holds any such office on a committee of another co-operative society of the same type.
  - if he holds any such office on the committees of three or more co-operative society of the same type.
- Provided that nothing contained in this sub-section shall be deemed to disqualify any such person for election as, or for being, a delegate of a society or a member of another committee.

- Explanation 1. - Where any person holding any office as aforesaid at the commencement of this Act is again elected to any such office after such commencement, he shall for the purpose of this sub-section be deemed to have held that office for one term before such election.
- Explanation 2 - A person who has ceased to hold any such office as aforesaid continuously for one full term shall again be qualified for election to any of those offices.
- On the committee of such co-operative societies or class of co-operative societies as may be prescribed, two seats shall be reserved, one for the members who belong to the Scheduled Castes and one for economically weaker sections of the members who as land-owners or tenants or as both do not hold more than the prescribed area of agriculture land or fulfill the prescribed conditions and if no such persons are elected, the committee shall co-opt the required number of members from amongst the persons entitled to such representation.
- Provided that in the case of a primary agricultural credit society such number of seats, being not less than one-half of the total number of members of the Committee, shall be reserved for members belonging to the Scheduled Castes and the aforesaid economically weaker sections of the members as may be prescribed, and if no such persons are elected, the Committee shall co-opt the required number of members from amongst the persons entitled to such representation.
- Explanation - For the purpose of this sub-section.

- "Scheduled Castes" means any of the Scheduled Castes specified in part 1 of the Schedule to the Constitution (Scheduled Castes) (Union Territories) order, 1951.
- "Primary agricultural credit society" has the meaning assigned to it in clause (cii) of section 2 of the Reserve Bank of India Act, 1934.
- Notwithstanding anything contained in this Act, any dispute relating to the election of members of committee of a co-operative society mentioned in sub-section (1) shall be referred to the Lieutenant-Governor whose decision thereon shall be final.
- The Lieutenant-Governor may make rules generally to provide for or to regulate matters in respects of elections of member of the committees.
- Notwithstanding anything contained in sub-section (1) to (8).
  - Where the Central Government has subscribed to the share capital of a co-operative society, the Central Government or any person authorized by it in this behalf shall have the right to nominate on the committee such number of persons not exceeding there or one-third of the total number of members thereof, whichever is less, as the Central Government may determine.
  - Where the Industrial Finance Corporation, the State Finance Corporation or any other financing institution notified into his behalf by the Central Government has provided finance to a cooperative society, the Industrial Finance Corporation, State Finance Corporation or

other financing institution, as the case may be, shall have the right to nominate one person on the committee.

- A person nominated under sub-section (9) shall hold office during the pleasure of the Central Government or the Corporation or other financing institution, as the case may be.

### **Securing Possession of records etc.**

- If the record, registers or the books of accounts of a co-operative society are likely to be tampered with or destroyed and the fund and property of society are likely to be misappropriated or misapplied; or
- If the committee of a co-operative society is reconstituted at a general meeting of the society or the committee of a society is removed by the Registrar under section 32 or if the society is ordered to be wound up under section 63 and the outgoing members of the committee refuse to hand over charge of the records and property of the society to those having or entitled to receive such charge the Registrar may apply to the magistrate, within whose jurisdiction the society function, for securing the records and property of the society.
- On receipt of an application under sub-section (1), the magistrate may, by a warrant, authorize any police officer not below the rank of sub-inspector to enter and search any place where the records and the property are kept or are believed to be kept and to seize such records and property; and the records and property so seized shall be handed over to the new committee or

administrator of the society or the liquidator, as the case may be.

### **Acts of cooperative societies not to be invalidated by certain defects.**

- No act of a co-operative society or of any committee or of any officer shall be deemed to be invalid by reason only of the existence of any defect in procedure or in the constitution of the society or of the committee or in the appointment or election of an office or on the ground that such officer was disqualified for this appointment.

### **Powers of general body**

- Conduct election to the managing committee and dismiss the members of managing committee.
- To conduct discussion and decision on the annual accounts
- To conduct division of profit as per Act, Rules and Bye-laws
- The maximum liability of the society is to be restricted as per the rules.
- To pass the annual budget of the society
- Approval of annual report
- To discuss other matters directed by the president
- To keep aside those members who is working against the society
- To dismiss a member

## **Functions of general body**

- To consider the note given by the registrar or his authorised representative and the report of the managing committee on such note.
- To discuss complaint raised on a member
- To discuss the matter relating to member in respect of delisting or expulsion
- To discuss the progress report of the society from the last general body till the date of presenting meeting
- To amend bye-laws as per the Act and rules
- To perform all those measures directed by the bye-laws
- To take decision on such other matters on the agenda

## **Privileges of Co-operative societies**

The registration of a co-operative society shall render it a body corporate by the name under which it is registered having perpetual succession and a common seal, and with power to hold property, enter into contract, institute and defend suits and other legal proceedings and to do all things necessary for the purposes for which it is constituted.

### **First charge of society on certain assets**

- Notwithstanding anything contained in any law for the time being in force, but subject to any prior claim of the Government in respect of land revenue or any money recoverable as land revenue, any debt or outstanding demand owing to a society by any member or past member or deceased member shall be a first charge

- Upon the crops or other agricultural produce of such member for the raising of which the loan was taken from the society by such member; and
- Upon any cattle, fodder for cattle, agricultural or industrial implements or machinery, or raw materials for manufacture, supplied, or purchased in whole or in part out of any loan given, by the society, or on any article manufactured from raw materials so supplied or purchased.
- No person shall transfer any property which is subject to a charge under sub-section (1) except with the previous permission in writing of the society which holds the charge.
- Notwithstanding anything contained in any law for the time being in force, any transfer of property made in contravention of the provisions of sub- section (2) shall be void.
- The charge created under sub-section (1) shall be available as against any claim of the Government arising from any loan granted by them after the grant of the loan by the society.

### **Charge on immovable property of members borrowing loans from certain societies**

Notwithstanding anything contained in this Act or in any other law for the time being in force.

- any person who makes an application to a society of which he is a member for a loan shall, if he owns any land or has interest in any land as tenant, make a declaration in the prescribed form which shall state that the applicant thereby



creates a charge on such land or interest specified in the declaration for the payment of the amount of the loan which the society may make to the member in pursuance of the application and for all future advances, if any, required by him which the society may make to him as such member subject to such maximum as may be determined by the society together with interest on such amount of the loan and advances.

- any person who has borrowed a loan from a society of which is a member before the date of the coming into force of this Act, and who owns any land or has any interest in land a tenant shall; as soon as possible, make a declaration in the form and to the effect referred to in clause (i).
- a declaration made under clause (i) or clause (ii) may be varied at any time by a member with the consent of the society in flavor of which such charge is created.
- no member shall alienate the whole or any part of the land or interest therein specified in the declaration made under clause (i) or clause (ii) may be varied at any time a by a member with interest thereon is paid in full

Provided that for the purpose of paying in full to the society the whole amount borrowed by the member together with interest thereon, the member may, with the previous permission in writing of the society and subject to such conditions as the society may impose, alienate the whole or any part of such or interest thereon.

Provided further that standing crops on any such land may be alienated with the previous permission of the society

- Any alienation made in contravention of the provision of clause (iv) shall be void.

- Subject to the prior claims of the Government in respect of land revenue or any money recoverable as land revenue, there shall be a first charge in favor of the society on the land or interest specified in the declaration made under clause (i) or clause (ii) for and to the extent of the dues owing by him on account of the loans and advances.
- The record of rights shall also include the particulars of every charge on land or interest created under a declaration under clause (i) or clause (ii) notwithstanding anything contained in any law relating to land revenue for the time being in force.
- Any sum due to a society in consequence of charge created under a declaration under clause (i) or clause (ii) shall, on application for its recover being made by such society accompanied by a certificate signed by the Registrar, be recoverable by the Collector, according to the law and under the rules for the time being in force for the recovery of land revenue.

### **Charge and set-off in respect of share or contribution or interest of members.**

A co-operative society shall have a charge upon the share or contribution or interest in the capital and on the deposits of a member or past member or deceased member and upon any dividend, bonus or profits payable to a member or past member or the estate of a deceased member in respect of any debt due from such member or past member or the estate of such deceased member to the society, and may set-off any sum credited or payable to a member or past member or the estate of deceased member in or towards payment of any such debt.

## **Share of contribution or interest not liable to attachment**

Subject to the provisions of section 38, the share or contribution or interest of a member or past member or deceased member in the capital of co-operative society shall not be liable to attachment or sale under any decree or order of any court in respect of any debt or liability incurred by such member, and a receiver under the Provisional Insolvency Act. 1920 shall not be entitled to or have any claim on such share or contribution or interest.

## **Register of members.**

- Any register or list of members or shares kept by any co-operative society shall be prima facie evidence of any of following particulars entered therein -
  - the date of which any person entered in such register or list became a member.
  - the date on which any such person ceased to be a member.

## **Admissibility of copy of entry as evidence.**

- A copy of any entry in a book of a cooperative society regularly kept in the course of its business shall, if certified in such manner as may be prescribed, be received in any suit or legal proceedings as prima facie evidence of the existence of such entry, and shall be admitted as evidence of the matters, transactions and accounts therein recorded in every case where, and to the same extent as, the original entry itself is admissible.
- No officer of a co-operative society and no officer in whose office the books of a cooperative society are

deposited after liquidation shall, in any legal proceedings to which the society or the liquidator is not a party, be compelled to produce any of the society's books or documents the contents of which can be proved under this section, or to appear as a witness to prove the matters, transactions and accounts therein recorded, except under order of the court or the arbitrator made for special cause.

**Deduction from salary to meet cooperative society's claim in certain cases.**

- The Central Government may, by notification in the Official Gazette, remit the income-tax payable in respect of the profits of any class of co-operative societies or the dividends or other payments received by members of any class of such societies on account of profits.
- The Central Government may, by notification in the official Gazette, remit in respect of any class of co-operative societies -
  - The stamp duty chargeable under any law for the time being in force in respect of any instrument executed by or on behalf of a co-operative society or by an officer or member thereof and relating to the business of such society or any class of such instrument or in respect of any award or order made under this Act, in cases, where, but for such remission the co-operative society, officer or member, as the case may be, would be liable to pay such stamp duty.
  - Any fee payable under any law for the time being in force relating to the registration of documents or court, fee.

- The Central Government may, by notification, exempt any class of co-operative societies from -
  - land revenue
  - taxes on agricultural income
  - taxes on sale or purchase of goods and
  - taxes on professions, trades callings and employments

### **State and Co-operatives**

In kerala, the co-operative movement began in the early years of the 20<sup>th</sup> century. However, it has gained momentum only in the period since independence. It was started basically as a credit movement but has diversified its activities to several areas of socio-economic fronts in kerala over the years. Today with more than 20000 co-operatives, the co-operative movement in kerala has spread its wings in almost all parts of the state and most spheres of life.

State participation in co-operatives has been an important feature of the co-operative movement in india. State partnership or state participation in the share capital of societies is the most prominent among the various forms of state aid. Another important aid extended by the state co-operative is financial assistance which include mainly loans and advances. Guarantee for the debenture, loans, share capital, deposits etc. The integration of state and co-operatives is very clear in the following sections and rules in the kerala Co-operative societies act and Rules.

### **Direct share capital participation of the government in societies**

Section 42 provides that government may directly subscribe to the share capital of co-operative societies with limited liability. However, in sub section (2) it is specified that government is not entitled to get higher rate of dividend more than the rate allowed to other shareholders of the society.

### **Indirect share capital participation of government in societies**

Section 43 authorizes government to provide funds to a society for the purchase of shares in other societies with limited liability.

### **Principal state partnership fund**

Section 44 deals with the establishment of a fund called “Principal partnership fund”. According to this section, an apex society which receives funds from the government under section 43 may establish a fund with the money called “principal state partnership fund”.

### **Subsidiary state partnership fund**

Section 45 deals with the formation of “Subsidiary state partnership fund”. According to this section, a central society which receives money from the principal state partnership fund has to establish with that money a fund called, “Subsidiary State Partnership fund”

### **Approval of government for purchase of shares**

section 46 laid down that previous approval of the government in writing, is to be obtained for the purchase of shares in a co-operative society with the money in the principal state

partnership fund or subsidiary state partnership fund, as the case may be.

### **Liability to be limited in respect of shares**

Section 47 stipulates that the liability in respect of shares purchased directly by the government or indirectly through the apex society or central society from the respective funds with them (ie, principal state partnership fund and subsidiary state partnership fund) shall be limited to the amount actually paid as share capital.

### **Restriction on rate of dividend**

Section 48 stipulates that an apex society which has purchased shares in other societies from the many in the principal state partnership fund and a central society which has purchased shares in primary societies from the money in the subsidiary state partnership fund shall be entitled to receive dividend at the rate admissible to other members and nothing more than that.

### **Indemnity of Apex and central societies**

Section 49 makes clear that government shall not have any claim against the apex society which purchased shares from the money in the principal state partnership fund in a society which is subsequently wound up or dissolved. But government is entitled to any money received by the apex society in liquidation or on dissolution as the case may be.

### **Disposal of share capital and dividend**

According to section 50 any amount received by an apex society in respect of shares of other societies purchased from the money in the principal state partnership fund on redemption of such shares or by way of dividends or otherwise shall be credited to this fund.

### **Disposal of funds on winding up of apex or central society**

Section 51 provides that on winding up of an apex society, all the money to the credit of the principal state partnership fund shall be paid to the government.

### **Agreement by government, apex society or central society**

Section 52 permits the government, apex society to make agreement with the participating society setting out the terms and conditions of participation.

### **Properties and Funds of co-operative societies**

#### **Funds not to be divided**

No part of the funds other than the net profits of a society shall be paid by way of bonus or dividend or otherwise distributed among its members:

Provided that a member may be paid such remuneration, allowances or honoraria and on such scale as may be laid down by the bye-laws for any services rendered by him to the society.

#### **Disposal of net profit.**

- A society shall, out of its net profits in any year
- Transfer an amount not being less than fifteen per cent of the net profits to the reserve fund; and
- Credit such portion of the net profits, not exceeding five per cent, as may be prescribed, to the Co-operative Education Fund referred to in clause (xix) of sub-section (2) of section 109.



- Ten percent of the net profit to the Co-operative Member Relief Fund as may be prescribed.
- The balance of the net profits may be utilized for all or any of the following purposes, namely:
- Payment of dividends to members on their paid-up share capital at such rate not exceeding [twenty five] per cent as may be prescribed
- payment of bonus to members on the amount or volume of business done by them with the society, to the extent and in the manner specified in the bye-laws;
- Seven percent of net profit to Agricultural Credit Stabilization Fund;
- Five percentage of net profit to the Professional Education Fund maintained by the Registrar.
- Donations of amounts not exceeding ten percent of the net profits for any charitable purpose as defined in section (2) of the Charitable Endowments Act, 1890(Central Act 6 of 1890); and
- Balance of net profit may be utilized for any or all of the purposes specified in the bye-laws of the societies except for payment of bonus to employees
- Notwithstanding anything contained in section 18 of the Act, in the case of District Co-operative Banks the term ‘member’ shall include nominal and associate members, for the purpose of clause (a) of sub - section (2)].

## **Disposal of non-banking assets**

The immovable property acquired by a society through a sale by the sale officer or through any legal proceedings for realization of loan amount shall be disposed of by the society within seven years from the acquisition] with prior sanction of the General body and the Registrar.

## **Contribution towards co-operative education fund**

Every co-operative society shall credit a sum calculated at two percent of its net profits subject to a maximum of Rs. 10,000 every year for contribution to the Co-operative Education Fund to be administered by the Registrar. This Fund shall be kept with State Bank of India and the Lieutenant Governor shall nominate a committee with Registrar as its Chairman, one officer from the office of the registrar, six representative of Contributing societies, two representatives of Delhi State Coop. Union and Principal of the Co-operative Training Institute which shall advise the Registrar for the Administration of Co-operative Education Fund. And such amount payable by the Society shall be a charge on the funds of the society.

## **Contribution towards national funds**

Subject to the provisions of section 47, a cooperative society may with the sanction of the Registrar contribute a sum out of its net profits in the National defense Funds, other funds of National importance or welfare schemes of the Government.

## **Investment of Fund.**

In addition to the manner specified in section 49, a co-operative society may invest or deposit its funds

- (a) with the Financing Bank.
- (b) with the Nationalized Commercial Banks.

(c) with the State Bank of India.

(d) in any other manner permitted by the Registrar.

### **Use of reserve fund in the business of a society.**

A co-operative society may, subject to the approval of the general body and to such conditions as the general body may impose, use in its business the reserve fund: -

- Up to one fourth of its reserve fund when the owned capital is less than the borrowed capital
- Up to one half of its reserve fund when the owned capital is equal to or exceeds the borrowed capital and
- The entire reserve fund when there is no borrowed capital;

### **Write off Debts and other sum due.**

No co-operative society shall write off in whole or in part any debt or other sums due to it without the previous sanction of the Registrar.

### **Enquiry and Inspection**

Section 65 deals with inquiry. An inquiry is held by the registrar to enquire in to the constitution, working and financial condition of a society as and when occasion arises and circumstances warrant it. This is usually held when there are serious irregularities noticed in the working of the society.

### **Inquiry by the Registrar**

The Registrar may,-

- on his own motion; or

- on an inquiry report of the Vigilance Officer appointed under section 68A; or
- on a report of the Director of Co-operative Audit appointed under section 63; or
- on an application by the majority of the members of the committee of the society, or by not less than one third of the quorum for the general body meeting, whichever is less; or
- on an application by the apex society or financing bank of which such society is a member; or (f) on an application of a society to which the society concerned is affiliated;

## **Powers**

Subsection (s) lays down that the registrar or a person authorised by him shall have following powers for the purpose of inquiry.

- He shall have free access to the books, accounts, documents, securities, cash and other properties belonging to or under the custody of the society.
- He may summon the person in possession of or responsible for the custody of the above things.
- The enquiry officer may himself call a general body or as the president or secretary to convene a general body meeting irrespective of the provisions in the bye-law

## **Supervision and Inspection**

The Registrar shall supervise or cause to be supervised by a person authorised by him by general or special order in writing in this behalf, the working of every society as frequently, as he may consider necessary. The supervision under this sub-section may include an inspection of the books of the

society.

The Registrar may, on his own motion, or on the application of a creditor of a society, inspect or direct any person authorized by him, by order in writing in this behalf, to inspect the books of the society.

### **Powers of Registrar to give directions**

Subject to the provisions of the Act and the Rules made there under, the Registrar may issue general directions and guidelines to any or all of the co-operative societies in furtherance of the purpose of the Act or for implementing Government policies for the benefit of the members and general public.

### **Suspension of Officers**

If the Registrar, in the course of any inquiry under section 65 or on inspection under section 66 or on audit under section 64 or on the report of Vigilance Officer appointed under section 68A, is satisfied that any officer other than the President, Vice President, Chairman, Vice Chairman and member of the committee of any society, has done any act detrimental to the interest of the society or its members and that there is reason to believe that such officer has indulged in misappropriation, manipulation of accounts, forgery, destruction or tampering of records of the society, he may, for reasons to be recorded in writing issue a direction to the committee of the said society to suspend the officer or officers responsible for the offence forthwith.

## **Submission of returns to the Registrar**

Every Co-operative Society shall file returns, within six months of the closure of every financial year, before the Registrar, containing the following particulars, namely:-

- A comprehensive annual report of its activities;
- Its audited statements of accounts;
- Plan for surplus disposal as approved by the general body of the Co-operative Society;
- List of amendments to the bye-laws of the co-operative society, if any;
- Declaration regarding date of holding of its general body meeting and conduct of elections when due; and
- Any other information required by the Registrar in pursuance of any of the provisions of this Act or the rules

## **Cost of inquiry or inspection**

Where an inquiry is held under section 65, or an inspection is made under section 66 on the application of a creditor, the Registrar may, by order, apportion the cost, or such portion of the cost, as he may deem fit, between the society to which the society concerned is affiliated, the society, the members or creditor demanding an inquiry or inspection and the officers or former officers of the society:

Provided that—

- no order of apportionment of the cost shall be made under this section unless the society or the person sought

to be made liable to pay the costs there under has had a reasonable opportunity of being heard;

- the Registrar shall state, in writing the grounds on which the costs are apportioned.

## **Surcharge**

If in the course of an audit, inquiry, inspection or the winding up of a society, it is found that any person, who is or was entrusted with the organization or management of such society or who is or has, at any time been an officer or an employee of the society, has made any payment contrary to the Act and the rules or the bye-laws, or has caused any loss or damage in the assets of the society by breach of trust, or willful negligence or mismanagement or has misappropriated or fraudulently retained any money or other property belonging to such society or has destroyed or caused the destruction of the records, the Registrar may, of his own motion or on the application of the committee, liquidator or any creditor, inquire himself or direct any person authorised by him by an order in writing in this behalf, to inquire into the conduct of such person.

Where an inquiry is made under sub-section (1), the Registrar may, after giving the person concerned, an opportunity of being heard, by order in writing, require him to repay or restore the money or other property or any part thereof, with interest at such rate, or to pay contribution and costs or compensation to such extent, as the Registrar may consider just and equitable.

Where the money, property, interest, cost or compensation is not repaid or restored as per sub-section (2), the Registrar shall take urgent steps to recover such amounts from the concerned persons as arrears of public revenue due on land as specified in Section 79 of the Act.

## **Vigilance Officer**

The Government shall appoint an officer, not below the rank of Deputy Inspector General of Police, as Vigilance Officer with powers to inquire into and investigate the cases of misappropriation, corruption and any other major irregularity in the societies as may be referred to him by the Registrar.

The Vigilance Officer shall conduct the inquiry and investigation in such manner, as may be prescribed.

The Vigilance Officer shall be under the administrative control of the Registrar of Co- operative Societies.

## **Settlement of Dispute**

In Section (2)(1) of the kerala co-operative societies Act, the term dispute is defined. Accordingly, “a dispute means any matter touching the business, constitution, establishment or management of a society capable of being the subject matter of litigations and includes a claim in respect of any sum payable to or by a society whether such claims be admitted or not’

Notwithstanding anything contained in any law for the time being in force, if a dispute arises,-

- Among members, past members and persons claiming through members, past members and deceased members; or
- Between a member, past member or person claiming through a member, a past member or deceased member and the society, its committee or any officer, agent or employee of the society; or
- Between the society or its committee and any past committee any officer, agent or employee or any past



officer, past agent or past employee or the nominee, heirs or legal representatives of any deceased officer, deceased agent or deceased employee of the society; or

- Between the society and any other society; or
- Between a society and the members of a society affiliated to it or
- Between the society and a person, other than a member of the society, who has been granted a loan by the society or with whom the society has or had business transactions or any person claiming through such a person or
- Between the society and a surety of a member, past member, deceased member or employee or a person, other than a member, who has been granted a loan by the society, whether such a surety is or is not a member of the society; or
- Between the society and a creditor of the society, such dispute shall be referred to the Co-operative Arbitration Court constituted under section 70A in the case of non-monetary disputes and to the Registrar, in the case of monetary disputes; and the Arbitration Court or the Registrar, as the case may be, shall decide such dispute and no other court or other authority shall have jurisdiction to entertain any suit or other proceedings in respect of such dispute.

### **Award on disputes**

The Co-operative Arbitration Court, on receipt of reference of a dispute under sub-section (1) of section 69, shall pass an award 65[within one year] in accordance with the

provisions of this Act and the rules and the bye-laws made there under and such award shall, subject to the provisions of section 82, be final.

The Co-operative Arbitration Court may, pending award of dispute referred to it under section 69, make such interlocutory orders as it may deem necessary in the interest of justice.

The Co-operative Arbitration Court shall have the same powers as are vested in a civil court under the Code of Civil Procedure, 1908 (Central Act 5 of 1908), while trying a suit in respect of the following matters, namely:-

- The summoning and enforcing the attendance of any defendant or witness and examining the witness on oath;
- The discovery and production of any document or other material object producible as evidence;
- The reception of evidence on affidavits;
- Issuing of any commission for the examination of any witness; and
- Any other matter which may be prescribed.

### **Co-operative Arbitration Courts**

The Government shall constitute such number of Co-operative Arbitration Courts, as are necessary to exercise the powers and discharge the functions conferred on it under this Act.

The qualifications, term, salary and allowances and other conditions of service of the person to be appointed as the Co-operative Arbitration court shall be such, as may be decided by

the Government from time to time.

The Government shall make rules for regulating the procedure and disposal of business of the Co-operative Arbitration Court.

The Government or Registrar shall appoint as many officers and employees as may be necessary, to assist the Co-operative Arbitration Court.

The officers and employees referred to in sub-section (4) shall continue to be Government servants for all purposes and their terms and conditions of service shall continue to be the same as applicable to them under the government.

### **Provisions as to pending proceedings**

On the constitution of Co-operative Arbitration Court, every dispute pending before the Registrar or any person invested with the power to dispose of the dispute by the Government or the arbitrator appointed by the Registrar, in respect of non-monitory disputes, relating to the local area of jurisdiction of the Arbitration Court, shall be transferred to such Arbitration Court and the Court shall dispose of the same as if it were a dispute referred to it under section 69.

### **Liquidation**

#### **Winding up of societies**

If the Registrar, after an inquiry has been held under section 65 or an inspection has been made under section 66 or on receipt of an application made by not less than three-fourths of the members of a society, is of opinion that the society ought to be wound up, he may, after giving the society an opportunity of making its representation and in consultation with the

financing bank to which the society is affiliated and the circle co-operative union, by order in writing, direct it to be wound up.

The Registrar may of his own motion, by order in writing, direct the winding up of a society,-

- Where it is a condition of the registration of the society that the society shall consist of at least twenty-five members and the number of members has been reduced to less than twenty-five; or
- Where the society has not commenced working within six months of its registration, unless extension of time is granted by the registrar, or has ceased to work; or
- Where the number of actual workers falls below the prescribed limit in the case of a society formed exclusively for the benefit of persons engaged in a particular industry or occupation.

If a proposal for revitalisation of a society, in respect of which an order under sub- section (2) has been passed, is received by the Registrar within a period of one year from the date of such order, the Registrar may cancel the same and allow the society to continue to exist.

## **Liquidator**

Where the Registrar has made an order under section 71 for the winding up of a society, he shall appoint a liquidator for the purpose and may fix his remuneration.

The liquidator shall, on appointment, take into his custody or under his control all the property, effects and actionable claims to which the society is or appears to be entitled and shall take such steps as he may deem necessary

or expedient to prevent loss or deterioration of, or damage to, such property, effects and claims.

Where an appeal is preferred under section 69[83] against an order of winding up of a society made under section 71 such order shall not operate thereafter until it is confirmed in appeal: Provided that the liquidator shall continue to have custody or control of the property, effects and actionable claims mentioned in sub-section (2) and to have authority to take the steps referred to in that sub-section.

Where an order of winding up of a society is set aside in appeal, the property, effects and actionable claims of the society shall re-vest in the society.

### **Powers of Liquidator**

Subject to any rules made in this behalf, the whole of the assets of a society in respect of which an order of winding up has been made shall vest in the liquidator appointed under section 72 from the date on which the order takes effect and the liquidator shall have power to realise such assets by sale or otherwise.

The liquidator shall also have power, subject to the control the Registrar

- ✓ To institute and defend suits and other legal proceedings on behalf of the society by the name of his office;
- ✓ To determine from time to time the contribution (including debts due) to be made or remaining to be made by the members or past members or by the estates or nominees, heirs or legal representatives of

deceased members or by any officers or former officers, to the assets of the society;

- ✓ To investigate all claims against the society and, subject to the provisions of this Act, to decide questions of priority arising between claimants;
- ✓ To pay claims against the society including interest up to the date of winding up according to their respective priorities, if any, in full or rateably, as the assets of the society may permit, the surplus, if any, remaining after payment of the claims being applied in payment of interest from the date of such order of winding up at a rate fixed by him but not exceeding the contract rate in any case;
- ✓ To determine by what persons and in what proportions the costs of the liquidation are to be borne;
- ✓ To determine whether any person is a member, past member or nominee of a deceased member;
- ✓ To give such directions in regard to the collection and distribution of the assets of the society as may appear to him to be necessary for the winding up of the affairs of the society;
- ✓ To carry on the business of the society so far as may be necessary for the beneficial winding up of the same;
- ✓ To make any compromise or arrangement with creditor or persons claiming to be creditors or having or alleging to have any claim, present or future, whereby the society may be rendered liable; and

- ✓ To compromise all calls or liabilities to calls and debt and liabilities capable of resulting in debts and all claims present or future, certain or contingent subsisting or supposed to subsist, between the society and a contributory or alleged contributory or other debtor or person apprehending liability to the society and all questions in any way relating to or affecting the assets or the winding up of the society, on such terms as may be agreed upon and to take any security for the discharge of any such call, liability, debt or claim and give a complete discharge in respect thereof.

### **Cancellation of registration of a society**

Where in respect of a society which has been ordered to be wound up under section 71 no liquidator has been appointed under section 72 after two months from the date of such order, or if an appeal has been filed against the order of winding up, from the date of confirmation of the order in appeal, or where the affairs of a society in respect of which a liquidator has been appointed under section 72 have been wound up or where the Registrar is satisfied that the final winding up of the affairs of the society is not possible on account of the destruction of the records, the Registrar shall, by order in writing, cancel the registration of the society and the society shall be deemed to be dissolved and shall cease to exist as a corporate body from the date of such order of cancellation.

### **Execution**

### **Enforcement of charge**

Notwithstanding anything contained in Chapter IX or any other law for the time being in force, but without

prejudice to any other mode of recovery provided in this Act, the Registrar or any person subordinate to him empowered by the Registrar in this behalf, may, on the application of a society, by order in writing, direct the payment of any debt or outstanding demand due to the society by any member or past member or deceased member, by sale of the property or any interest therein, which is subject to a charge under sub-section (1) of section 35.

### **Execution of orders, etc..**

Every order made under sub-section (2) of section 68 or under section 75, every decision or award made under section 70, every order made by the liquidator under section 73 and every order made by the Tribunal under section 82, section 84, section 85 or section 86 and every order made under section 83 shall, if not carried out, –

- ✓ On a certificate signed by the Registrar or any person authorised by him in this behalf, be deemed to be a decree of a civil court and shall be executed in the same manner as a decree of such court; or
- ✓ Where the order is for the recovery of money, be executed according to the law and under the rules for the time being in force for the recovery of arrears of public revenue due on land.

### **Registrar or person empowered by him to be a civil court for certain purposes**

The Registrar or any person empowered by him in this behalf shall be deemed, when exercising any power under this Act for the recovery of any amount by the attachment and sale or by sale without attachment of any



property, or when passing any orders on any application made to him for such recovery, to be a civil court for the purpose of Article 136 of the Schedule to the Limitation Act, 1963 (Central Act 36 of 1963).

## **Appeals, Revision and Review**

### **Tribunal**

The Government shall constitute a single member Tribunal to exercise the powers and discharge the functions conferred on the Tribunal under this Act.

A person shall not be qualified for appointment as a member of the Tribunal unless he is or has been holding the post of a District Judge in the State.

The term, salary and allowances and other conditions for service of the member shall be such as may be decided by Government from time to time.

The Government shall make rules for regulating the procedure and disposal of the business of the Tribunal.

### **Provisions as to certain pending Proceeding**

Every proceeding pending before the Tribunal immediately before the commencement of this Act shall stand transferred to and will be decided by the Tribunal constituted under this Act.

### **Appeals to Tribunal**

Any person aggrieved by

- An award of the Co-operative Arbitration Court under sub-section (1) of section 70; or

- An order of the Registrar made under clause (ii) of sub-section (8) or clause (ii) of sub-section (9) of section 14; or
- Any decision of the Registrar made under sub-section (6) of section 70; or
- Any decision under sub-section (6) of section 70 of the person invested with powers in that behalf by the Government; or
- Any award of the arbitrator under sub-section (6) of section 70, may, within sixty days from the date of such decision or award, as the case may be, appeal to the Tribunal and the Tribunal may pass such orders on the appeal, as it may deem fit.

### **Appeals to other authorities**

An appeal shall lie under this section against-

- An order of the Registrar made under sub-section (2) of section 7 refusing to register a society; or
- An order of the Registrar made under sub-sections (4) and (6) of section 12 refusing to register an amendment of the bye-laws of a society; or
- A decision of a society refusing to admit any person as a member of the society or expelling any member of the society; or
- An order made by the Registrar under section 67 apportioning the cost of inquiry held under section 65 or an inspection made under section 66; or

- An order of surcharge made by the Registrar under section 68; or
- An order made by the Registrar under section 71 directing the winding up of a society; or
- Any order made by the Liquidator of a society in exercise of the powers conferred on him by section 73; or
- Any order made under section 76; or
- An order for attachment of any property made by the Registrar under section 78; or
- Any order made by any person exercising all or any of the powers of the Registrar.

### **Revision by Tribunal**

The Tribunal may call for and examine the record of any proceedings in which an appeal lies to it for the purpose of satisfying itself as to the legality or propriety of any decision or order passed and if in any case it shall appear to the Tribunal that any such decision or order should be modified, annulled or revised, the Tribunal may pass such order there on as it may deem fit.

### **Review of orders by Tribunal**

The Tribunal may, either on the application of the Registrar or on the application of any party interested review its own order in any case and pass in reference there to such order as it think fit.

## **Interlocutory orders by Tribunal**

Where an appeals made to the Tribunal under section 82 or where the Tribunal calls for the record of a case under section 84, it may, in order to prevent the ends of justice being defeated, make such interlocutory order pending the decision of the appeal or revision as it may deem fit.

## **Powers of revision of Registrar and Government**

The Registrar may of his own motion or on application call for and examine the record of any officer subordinate to him not being an officer exercising the powers of the Registrar, and the Government may of their own motion or on application call for and examine the record of the Registrar including any officer exercising the powers of the Registrar, in respect of any proceeding, not being a proceeding in respect of which an appeal to the Tribunal is provided by section 82, to satisfy himself or themselves as to the regularity of such proceedings, or the correctness, legality of propriety of any decision passed or order made thereon, and if, in any case it appears to the Registrar or the Government that any such decision or order should be modified, annulled, reversed or remitted for reconsideration, he or they may pass orders accordingly.

## **MODULE 2**

### **Role of Management in the development of Co-operative Organisation**

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Co-operatives have increased in size with diversity of products and services, and have departmentalized their operations. Larger regions have numerous subsidiaries. This stimulates more training for secondary level managers. Training is provided by personal or formal training departments of regional co-operatives, who often contract with outside providers or universities.

#### **Role of management**

Management combines ideas, processes, materials, facilities, and people effectively to provide needed services to members-owners. Management is the decision making element of the co-operative. Broadly speaking, its role entails formulating and executing operating policies, providing good service, maintaining financial soundness, and implementing operating efficiencies to meet its objects successfully.

Co-operative principles and objectives present a distinctly different managerial premise. That premise is revealed in more detail through the following perspectives an executive must acquire to be a good co-operative manager.

1. Adjusting decision making to a business where the customers are also the owners.
2. Dealing with complex issues of equitable treatment of owner-patrons, the manager of an IOF (Investor Owned Firm) will discover that distributing the net earnings of a

co-operative is much more complicated than declaring a dividend on capital stock

3. Working in a service-oriented organization is a spotlighted atmosphere
4. Co-operative have unique management implications of business ownership and control

### **Resources to manage**

Like any other business, three major types of resources must be managed in a co-operative-people, capital and facilities.

### **People**

The most important resource in a co operative is people. The success of all phases of the business depends on competent personnel working together smoothly and efficiently. In a 1994 study conducted by Janice Dresbach, Ohio State University, co operative managers said training was highly important in the areas of improving customer relations, educating members about the co operative way of doing business, working effectively with a board of directors, identifying member needs. Management should also motivate and reward employees. This coaching function involves seeking suggestions from staff, creating an environment where employees can be innovative, establishing goals, inspiring and recognizing good performance, and developing teamwork and team spirit among employees.

In a co operative, management also must strongly emphasize member relations because Ownership, control, and patronage all are member functions. This involves adequate two-way communication and information from management to members and from members to management. Continuous efforts are also

needed to obtain new members to maintain the organization and an adequate volume of products or services.

## **Capital**

Financial management a key to operating co operatives, involves managing assets such as cash, accounts receivable, inventories, fixed assets, and investments in other organizations. It includes managing liabilities, such as accounts payable and current notes payable, and obtaining favorable long-term financing. Sufficient member or equity capital and a sound financial position must be maintained. That will be acceptable to creditors, suppliers, or buyers of co operative products. This requires periodic analysis of the co operative's financial position, its operating efficiency, and proposals for expansion.

Financial management involves: (1) considering funds available and source for additional capital; (2) allocating funds among assets to be financed; and (3) ensuring that all aspects of financing are dealt with in a manner consistent with sound business practices and co operative principles.

## **Facilities**

Building and equipment can represent a large proportion of a co-operative's assets. Therefore, important management considerations include scheduled maintenance; rearrangement, remodeling, and replacement to improve operating efficiency; daily operating cost records; preventive maintenance programs for rolling stock such as delivery trucks; grounds maintenance and pest control; adequate insurance; disposal of unproductive assets; and observance of safety, health, and other environmental regulations.

## **Functions of management (Principles of management)**

### **Planning**

The most basic function of management is planning. Every enterprise or manager has to plan and all other activities will depend upon planning.

Without planning the production will halt within days for want of components. In every field now there is planning. Changes and economic growth create opportunity for new ventures but they also have risks particularly in a competitive situation. It is the task of planning to minimize risk while taking advantage of opportunities

### **Organising**

One of the writers of management Louis A. Allen, described that "Organisation is the process of identifying and grouping the work to be performed, defining and delegating responsibility and authority and establishing relationships for the purpose of enabling people to work most effectively together in accomplishing objectives." This definition, brings out the following main points about organisation.

- ✓ Identification and grouping or departmentalizing the work to be done.
- ✓ Defining and delegating responsibility.
- ✓ Deciding the level of people needed and indicating the relationship of each position.
- ✓ Enable people to work together most effectively to accomplish the objectives.



In other words, it involves identifying the tasks involved and staffing to perform the task most effectively, keeping the organisational objectives in view.

Another writer, Theo Hainiann has defined organising as "the process of defining and grouping the activities of the enterprise and establishing the authority relationships among them. In performing the organising function, the manager defines, departmentalises and assigns activities so that they can be more effectively executed."

This definition also in a way brings out the above points. According to Mooney and Reiley Organisation, is the form of every human association for the attainment of a common purpose." So organising or organisation is more concerned with the facilitation of human efforts or activity for the attainment of objectives.

The first task of the management is to decide what kind of structure is needed. Organisation structure is an indispensable means and the wrong structure will seriously impair business performance. Therefore, before analysing the requirements of organisation, the management has to analyse the business and its objectives. The organisation structure can then be framed to achieve the objectives.

## **Staffing**

Staffing means hiring and developing required personnel to fill in various positions in the organization. In simple words, staffing is the process of obtaining capable and competent people to fill all positions from top management to operative management. This includes recruitment, selection, training, development and appraisal of employees.

## **Directing**

The managers have the responsibility not only of planning and organizing the operations but also of guiding and supervising the subordinates.

## **Control**

Control consists of the steps taken to ensure that the performance of the organization conforms to the plans. A manager is responsible for controlling the work for which he is accountable.

## **Co-operative principles**

1. Voluntary and open membership
2. Democratic member control
3. Members economic participation
4. Autonomy and independence
5. Education, training and information
6. Co-operative among co-operatives
7. Concern for community

## **Co-operative management**

Cooperative Movement in India has grown up into a huge network of primary, central, state and national as federal organisations covering the various facets of the economy viz, Banking, Agriculture, Supply, Distribution, Processing, Marketing, Housing, Transportation and Small Scale Industry. It means that it covered the entire sectors of the economy such as Primary, Secondary, and tertiary. But

a notable feature is that most of the cooperatives in India are not efficiently working thereby they incur losses and have not achieved their goals. Lack of member awareness, vigilance and solidarity and the lack of professional management are some of the causes leading to dormancy or inefficiency of their performance. Cooperatives alone conform to the requirements of the new social order based on the values of socialism and democracy which is envisaged in the constitution of India

## **CONCEPT OF COOPERATIVE MANAGEMENT**

Cooperation means living, thinking and working together. It denotes a special method of doing business. In reality, cooperation is as old as man itself. Eg. Formation of social groups is the outcome of reflexive cooperation. Even in animal we can see that the life of ants, bees, wasps, lions etc provides the best example of instinctive cooperation. The practice of the principle of cooperation contributed to the development of human race more than any other biological and social factor. Right from the hunting age up to the present day the progress and development of human beings, in all spheres, social, economic, religious and political is marked by a sense of thinking, working and living together.

Cooperation is thus, older than the cooperative movement. The cooperative movement is only one example of human cooperation among others, eg., joint stock companies, cartels, trusts, etc. The term cooperation thus connotes several meanings and it is difficult to convey the correct meaning of cooperation, in its technical sense.

Cooperation, thus, is a movement whose theory has evolved with times and experiences gained by the cooperators. There is no rigidity either in the concept or in

the practice. It is the objective, ideal or the purpose which is to be achieved. The cooperation movement existed because of its ideals and it is from the pursuits of these ideals that its principles are derived and characteristic features determined.

## **DEFINITIONS**

According to one of the school of thoughts deriving its strengths from Schulze Hass, Raifeisen and Horrace Plunkett, 'Delitzsch, A cooperative institution is a voluntary association of independent economic units, organized, capitalized and run by, and for its members, providing a and/or marketing goods and services on costtocost basis to their members. The chief aim underlying the organisation of such institutions is the advancement of economic interests of members and protection and maintenance of the economic independence of making up the economic deficiency through pooling of resources and thus ll producers by bringing to them the economies of large scale production.'

The second school of thought and from men like drawing inspiration from growing socialist of the 19<sup>th</sup> century Robert Owen, Saint Simon, Charles Fourier, Louis Blanc, Carles Guide, Ferdinand Lassalle etc., believes that 'cooperative institution should not be merely contented with improving the economic position of the members witin the existing framework but also a ' ims at eliminating the competitive, capitalistic system and replacing it by one, which is based on mutual cooperation.

The third and last school believes that cooperative movement can be an important instrument in furthering the socialist progress. This is based on Marxist Leninist theories that, cooperatives can help the transformation from

capitalism and finally to communism. Accordingly, a cooperative society has been defined as an “economic and social organisation of the working people, serving not only interest of the members, but also social progress,” which promotes safeguards and realizes the interests and aspirations of the working people”.

In the words of H. Calvert, cooperation is, “a form of organisation wherein persons voluntarily associate together as human beings on a basis of equality for the promotion of economic interest of themselves”

According to Herrick, it is “the act of poor persons voluntarily united for utilizing reciprocally their own forces, resources or both, under their mutual management to their common profit or loss”.

In the words of Horrace Plunkett, it is nothing but “self- help made effective by organisation.”

The International Labor Organisation has defined cooperative society as, “an association of persons varying in number , who are grappling with the same economic difficulties and who, voluntarily associate on a basis of equal rights and obligations, endeavor to solve those difficulties, mainly by conducting at their own risk an undertaking to which they have transferred one or more of such of their economic functions as correspond to their common needs and by utilizing this undertaking in joint cooperation for their common material and moral benefits”.

## **UNIQUENESS OF COOPERATION**

- ✓ Cooperation is based on the principal of self and service above self help through mutual help, abolition of profits

- ✓ In cooperation, individual freedom occupies a very important position.
- ✓ The principles of 'voluntary association' and 'democratic management' are the guidelines for the cooperative movement.
- ✓ Cooperation eliminates the employers and provides independence to the workers.
- ✓ A cooperative society is a union of weak and needy individuals who have equal rights and has one vote irrespective of the number of shares held by him.

## **Module III**

### **Co-operative Leadership**

Leadership is a process by which a person influences others to accomplish an objective and directs the organization in a way that makes it more cohesive. Leadership is a process whereby an individual influences a group of individuals to achieve common goal.

#### **Factors of Leadership**

There are four major factors in Leadership ( U.S Army 1983)

- A) Leader
- B) Followers
- C) Communication
- D) Situation

#### **Principles of Leadership**

- Know yourself and seek self-improvement
- Be technically proficient
- Seek responsibility and take responsibility for actions
- Make sound and timely decisions
- Set the examples
- Know you people and look out for their well being

- Keep your workers informed
- Develop a sense of responsibility in your workers
- Ensure the tasks are understood, supervised and accomplished

### **Qualities of a Leader of a Co- operative Society**

A leader of a co-operative society is one who can command the backing of a large number of members for his actions and persuades them to support his programmes and ideology. To do this, he should have the following qualities

- He should have honest, kind and truth loving character
- He should be intelligent
- He should have utmost patience
- He must dedicate himself to the cause of the society
- He must be a person with courage
- The leader should not be short sighted but must be capable of working out long range plans and solutions
- He should have a clear understanding of the nature of the co-operative society
- He should be sympathetic about the problems confronting the members
- He should be a person with Commonsense

### **Functions of a leader in Co – operative Society**

The important functions performed by a leader in a co-



operative society are as follows

- Initiator: It is at the initiative of the leader that the co-operative society comes into existence
- Encourager: As an encourager the leader of the co-operative society performs two important functions. First, he has to set the tasks before the members and motivate them to take actions in an organized manner, Secondly, the leader encourages the people living in the surrounding areas of the co-operative society to become its members in large numbers
- Suggester: Next function of the leader of the co-operative society is to assist the society in the formulation of correct policies for the economic and social well-being of the members
- Implementor: For the smooth conduct of the day to day affairs of the society the leader has to take initiative to translate the policies into action

### **Path Goal Leadership Theory**

One of the most important approaches to leadership is path goal theory. The path goal has a contingency perspective. The path goal theory focuses on the situation and leader behavior than leader personality traits. This theory was developed by Robert House to make leadership more effective. Goal plays a central role in leadership development. Path goal theory is closely related to the expectancy theory of Motivation, according to which the effort of a person is influenced by two factors that is expectancy and valence.

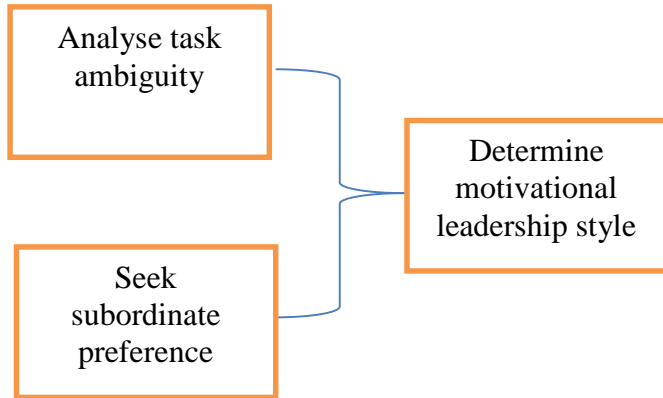
The path goal theory believes that a leader can change a subordinate's expectancy by clarifying the paths between the subordinate's action and the outcome, which is the goal the employee wants to achieve. According to this theory the main function of a leader is to clarify the set goals with subordinates, to help them to find the best path for achieving goals and remove the obstacles in their performance.

The four path goal types of leader behaviors are,

- **Directive:** The leader informs her followers on what is expected on them such as telling them what to do, how to perform a task, scheduling and controlling work.
- **Supportive:** The leader makes work pleasant for the workers by showing concern for them and by being friendly and approachable
- **Participative:** The leader consult with his followers before making a decision on how to proceed. It is most effective when the subordinates are highly skilled and trained in their performance.
- **Achievement:** The leader sets challenging goals for her followers, expects them to perform at their highest level and shows confidence in their ability to meet this expectation.

### **Components of Path Goal Leadership**

The path goal theory has major three components. They are as follows



### **Strength of Path Goal**

1. It is the first attempt to provide an expanded framework which combines the previous works of situational, contingent leadership and expectancy theory
2. It is also the first theory to emphasize the importance of motivational factors from the subordinate perspectives
3. It defines very practical and clear roles for a leader

### **Criticism of Path Goal**

1. It is very complex theory since it considers more parameter and requires analysis of those parameters to effectively choose leadership style
2. It is challenging to evaluate and analyses various components of the theory in real organizational situations
3. It is also criticized for placing a great deal of responsibilities on the leader and less on the subordinates.

## **Leadership and Management**

Management is about getting things done with the aid of people and other resources. In other words, it is the process of leading and directing all or part of the organization through the deployment and manipulation of resources. Leadership is the process of influencing others to understand and agree about what needs to be done and how to do it, and the process of facilitating the individual and collective efforts to accomplish shared objectives. Typically associated with the concept of influence of motivation: leadership may be considered as the ability of an individual to influence, motivate and enable others to contribute towards the effectiveness and the success of the organization.

Both the leadership and management are vital to the success of the organizations. The relative importance and the best way to integrate them depends upon the situation at the time. Leadership is essentially an influencing process. The function of the leader is to ensure the organization does the right thing while the manager ensures things are done right. The leader is concerned with establishing direction the vision and the organizational goals and influencing followers to obtain commitment. The manager ensures goals are attained through plans, budgets, resource allocation, organization and problem solving

## **MODULE –IV**

### **CO-OPERATIVE ACCOUNTING**

Accounts are ‘Statement of facts relating to money or things having money value’. The facts that are incorporated in accounting records are described as transactions.

#### **ACCOUNTING**

A chronological listing of monetary transactions in the form of cash Account does not reveal the aggregate effect of all the transactions. Thus, only from such a cash account, nothing can be deduced about the general health or otherwise of a business concern. It has thus become necessary to also classify the different transactions under various heads of accounts.

Bookkeeping is the art of recording all the business transactions in the books of account and is mainly related to books of original entry as well as the ledger. Accountancy is mainly concerned with the summary and analysis of the record furnished by Bookkeeping. It is a means through which the results of the transactions under various heads are arranged in such form to show clearly not only the significance of such separate transaction but also the combined effect of any desired series of transactions.

#### **BOOKS & REGISTERS MAINTAINED BY THE CO-OPERATIVES**

Every society shall maintain such account book and registers in connection with the business of the society as the Registrar may from time to time direct.

1. Minutes book

Minute books are for recording the proceedings of the general body.

2. Share Application Registrar

Register of applications for membership containing the name and address of the applicant, the date of receipt of application, the number of shares applied for and in case of refusal, the date of communication of the decision refusing admission to the applicant.

3. Admission Register

Admission book, showing the name and address of each member, the date of admission, the shares taken by him and the amount of share capital, if any refunded to him together with the date of each such payment and refund.

4. Nomination Register

5. Cash book, showing daily receipts and expenditure, and the balance at the end of each day.

6. Day Book

7. Receipt Book

Receipt book, containing forms in duplicate, one of each set to be issued for money received by the society and the other to serve as counterfoil.

8. Voucher File

Voucher file, contains all vouchers for contingent expenditure incurred by the society, numbered serially and

filed chronologically

#### 9. Ledger of Borrowing

Ledger of borrowings, showing deposits and other borrowings of all kinds

#### 10. General Ledger

In the case of a society, the working capital of which exceeds twenty thousand rupees, general ledger showing receipts and disbursements and the outstanding under various heads from day to day is maintained.

#### 11. Register of Monthly Receipts and Disbursement

#### 12. Register of Dividend

#### 13. Suspense Account Register

#### 14. Rectification Register

In the case of issuing loans- In addition to the above registers, the following Registers are necessary.

##### 1. Loan Ledger

Loan ledger, showing the number and date of disbursement of each loan issued to members the amount of loan, the purpose for which it is granted and the date or dates of repayment, distinguishing principal and interest

##### 2. Liability Register

Liability register showing the indebtedness of each member to the society whether on account of loan taken directly by him or on account of loan which he stands as surety

3. Register of Closed Loans
4. Arbitration and Execution Register
5. Register of Declaration under S-36

In the case of a society with unlimited liability, property statement of members showing the assets "and liabilities of each individual member on the date of his admission with full details of the property including the survey number of the lands, the statement being revised as often as may be necessary and in any case at least once in three years and such statements being entered in a register in a stitched volume

6. Land Register
7. Credit Limit Statement.

## **CLOSING OF ACCOUNTS**

Every co-operative society shall maintain accounts and book for the purpose of recording business transactions by it and close them every year on 31st March, by the 30th April. Each closing entry in the cashbook, in each ledger account shall be signed by the President, the Secretary and the Treasurer or any other approved members of the society authorised by the Managing Committee. The closing balances, which are thus authenticated, shall be carried forward to the following year commencing on the 1st April. For the purposes of calling the annual general body meeting as provided in section 29, the date fixed for making up the accounts for the year shall be 30th April of each year (Amended on 18.5.89)



## **POWER OF REGISTRAR TO DIRECT ACCOUNTS AND BOOKS TO BE WRITTEN UP.**

The Registrar may, by order in writing, direct any co-operative society to get any or all of the accounts and books required to be kept by it under rule 43 written up to such date, in such form and within such time as he may direct. In case of failure by any co-operative society to do so, the Registrar may depute an officer subordinate to him to write up the accounts and books. In such case it shall be competent for the Registrar to determine, with reference to the involved in the work and the emoluments of the officer deputed to do so, the charges which the society concerned shall pay to the Government and to direct its recovery from the society.

## **REGISTRAR MAY REQUIRE STATEMENTS AND RETURNS TO BE FURNISHED.**

1. Every co-operative society shall prepare for each co-operative year.
  - A statement showing the receipts and disbursements for the year.
  - A profit and loss account
  - A balance-sheet and
  - Such other statement or return as may be specified by the registrar from time to time.
2. Every balance sheet of a co-operative society shall give a true and fair view of the state of affairs of the society as at the end of the Co-operative year. Every profit and loss account of the society shall give a true and fair view of the profit and loss of the society for the Co-operative year. Every Co-operative society

shall submit to the Registrar annually within April each year a copy of each of the statements specified in the act.

3. Every consumers' society and every producers' society, any other society, if so, required by the Registrar by order shall submit to him annually within such time as may be specified in that order, a statement of verification of the stock at the close of the preceding co-operative year of articles in which the society transacts business.
4. In case of failure by any society to submit any statement or return specified, within the time specified therein, the Registrar may depute an officer to prepare the necessary statement or return. In such cases it shall be competent for the Registrar to determine with reference to the time involved in the work and the emoluments of the officer deputed to do so, the charges which the society concerned shall pay to the Government and to direct its recovery from the Society.

## **PREPARATION OF MANUFACTURING TRADING AND PROFIT AND LOSS ACCOUNT**

**1. Checking of postings in the ledgers:-**By carefully vouching the cash book/day book and subsidiary ledgers, the auditor will be able to acquaint himself with the nature of entries in them. While vouching the Cash Book/Day Book the Auditor has to see whether the entries in them have correctly recorded the transactions. Since all the transactions affecting the business are entered in the ledgers also they generally form the centre of the accounts and the basis for preparation of the profit and loss account

and balance sheet. The Auditor will, therefore, have to trace carefully the entries from the cash book and subsidiary ledgers and satisfy himself about their correctness in postings etc., in the respective ledgers.

The general ledger will contain all accounts which records the consolidated operation of the business in a given period or date. The consolidation of operation is again summarized into trading and profit and loss accounts and also to the statement of assets and liabilities of the concern. The Auditor has therefore added responsibility to ensure thorough checking of all the entries in general ledger in detail

**2. Checking of Central Ledger:-**The entries in the General Ledger are posted from the Day/Cash Book or subsidiary journals. The totals of all subsidiary journals viz., purchase register, sale register etc., in a manufacturing concern, deposit ledgers in a banking institution, other subsidiary ledgers in other institutions etc., are posted in the Day Book, first and then the totals are posted into the Central Ledger from Day Book. All transfers from one head in the General ledger to another account are passed through the Day Book. No transfer is made directly in any account in the General Ledger or Personal Ledgers without first being entered in the Day Book. Routine checking of postings is normally to be made by two clerks or assistants working together. Entries in the Day/Cash book and the General Ledger should be checked simultaneously. The opening balances of all real or property accounts and all accounts in the Personal Ledgers will however have to be carried over from the previous years' ledgers.

**3. Drawing up of the trial balance:-**After checking the postings, totaling and balancing into the General Ledger all the closing balances are entered in a sheet

separately depending on the nature of balance whether debit or credit. This statement which contains a classified summary or list of all closing balances of the General Ledger is known as the “trial balance”. If the totals of two sides of trial balances agree, normally it signifies the arithmetical accuracy of the accounts. If they do not tally, the difference is to be located by checking the postings, totals etc. An important point to be borne in mind in the preparation of the trial balance is to include the cash balance and bank balance as indicated by the cash and bank columns of the Cash/Day Book. In smaller societies, instead of the trial balance, a receipts and disbursements statement is prepared from the Cash/Book. However, the auditor should not proceed to prepare the final accounts unless he is presented with an agreed trial balance/receipts and disbursements statement.

**4. Checking of the transfer entries :-**When transfer entries are passed through the Cash Book/Day Book, both credit and debit entries should be checked simultaneously. There contra entries are to be marked with special ticks in order to distinguish them from other entries; which may involve passing of cash. All contra or transfer entries should be checked very carefully, as they do not affect the cash on hand. Since contra entries create monetary obligations, they are as important as cash transactions, and should therefore receive due attention of the auditor.

While vouching entries in the journal or in the Cash Book, the auditor should see that not only there is sufficient evidence in support of the entry, but the entry itself correctly records the transactions. It should further be seen that all transfers from one account to another account in the

General ledger or from one personal account to another are passed through the journal or through the Cash Book

and that no posting into the ledger is made directly from the ledgers. The details furnished in the transfer vouchers (both credit and debit) should be verified carefully and ensured that the entry has been correctly passed.

### **5. Adjustment and closing of nominal accounts :-**

All nominal accounts are to be checked by the Auditor so as to satisfy himself that all transactions of the business have been correctly classified and included in the final accounts. The Auditor should take special care to see that all accrued income and expenditure incurred, but not paid and income received in advance are duly brought into account. In the case of consumer stores, and other trading societies, it is necessary to see that the sales made during the last few days prior to the closing of the accounts have been duly recorded. For this the auditor will trace back the issue of dispatch of goods to the relative invoices or sales memos. Similarly in the case of securities and other investments, the auditor should ascertain whether all interest accrued during the period has been received and all dividends declared duly credited.

### **6. Items coming under:**

(i) **Manufacturing Account:-** Manufacturing or production account contain items relating to the manufacturing operations of the Society. The main heads under which the manufacturing, expenses are shown as under:-

1. The work in progress or value of unfinished goods at the beginning of the year.
2. Raw materials used (ie. opening stock plus purchases minus closing stock)

3. Fuel, Oil Electricity and other power charges.
4. Store and spare parts consumed.
5. Direct or indirect labour.
6. Maintenance of factory, plant, machinery, tools, stores, etc.
7. Insurance of Factory building, tools, machinery etc.
8. Depreciation of plant, machinery, tools etc.
9. Factory lighting, water charges etc.
10. Rent, rates and taxes of the factory premises.
11. Salaries of the technical staff and officers including works manager, factory Superintendent etc.
12. General administrative expenses pertaining to the Factory.

(ii) **Trading Account:-** The following items will appear on the debit side.

1. Opening stock (value of finished goods at the beginning of the year).
2. Cost of goods purchased, which include expenses connected with purchases.
3. All trading expenses.

On the credit side the following items are usually included

- (1) Net sale proceeds (ie. total sales minus sales returns)
- (2) Value of closing stock.

The difference between the two sides will show gross profit/gross loss.

(iii) ***Profit and loss account:-***The items coming under debit (loss) side are the following:-

1. Interest paid and due.
2. Establishment and contingent charges paid and due.
3. Depreciation
4. Assets written off as bad debts
5. Reserves for overdue interest.
6. Reserve for doubtful debts.
7. Miscellaneous items.
  - a. Provision for gratuity
  - b. Provision for income tax
  - c. Provision for other items (to be specified)
8. Last year's loss.
9. Net profit.

On the credit (profit) side:-

- (i) Interest earned.
- (ii) Miscellaneous income.
- (iii) Commission etc.
- (iv) Profit in non-credit business

(v) Reserve for interest of last year.

(vi) Other items

(vii) Net loss.

## **7. Other items:**

(a) ***Outstanding expenses*** :-All nominal accounts in the impersonal ledger should be examined to see that all expenses and charges pertaining to the period under review have been included. It may be likely that there may be expenses outstanding on account of fuel charges, electricity charges etc.

With regard to the outstanding payments the auditor should examine “Goods Inward Book” or the “Invoice Register” for the last few weeks of the period and satisfy himself that all purchases made and included in the stock have been duly brought into account and the amount of the unpaid invoices credited to the respective accounts of the suppliers of the goods. In addition to purchases not paid for, expenses incurred but not paid, are also required to be brought into account. Many times, bills for supplies made and services rendered are not received from the suppliers and other creditors. For eg: the Transport contractor might not have submitted his bills for goods transported during the last few days of the year. Similarly in must of the Societies, salaries and wages for June may not have been paid before the close of the year. All these items will have to be brought out as the outstanding expenses. For this purpose the Societies should maintain a register of outstanding expenses.

(b) ***Interest receivable and payable*** :-Interest accrued up to the date of balance sheet should be worked out and



brought into account. However, no credit should be taken of amounts, receipt of

which is considered doubtful, unless adequate provision is made therefore. As regards out-standing interest on loans and advances this has been treated separately. Interest on bank loans and other borrowings is generally debited to the account of the Society. In the case of deposits and other temporary borrowings, interest accrued up to the date of the balance sheet should be calculated and provided for. Care should be taken to include interest accrued on fixed deposit between the dates of last payment of interest up to the date of balance sheet.

(c) ***Expenses prepaid*** :-Prepaid expenses include expenses on account of rent, rates and taxes, insurance premiums, subscriptions membership fee etc. for periods that extent beyond the date of the balance sheet. The auditor should examine the individual accounts and also the demand notices, bills etc. and see that correct calculation has been made of the proportion of amounts relating to the unexpired periods.

(d) ***Deferred Revenue Expenditure*** :-There may be instances of incurring heavy expenditure the benefits of which extend to periods beyond the date of the balance sheet. In such cases, the expenditure incurred should be equitably spread over the period during which the benefits of such expenditure would be available. The auditor should examine carefully the whole of the circumstances in order to satisfy himself that the carry forward of part of such expenditure is fully justified.

**8. Manufacturing Account** :-The object of the manufacturing account is to ascertain the cost of goods

manufactured during the period. The manufacturing account is therefore debited with the actual materials used and all production charges. eg. wages, power, works and factory expenses adjustment being made for work in progress at the beginning and end of the period. The balance in this account which is carried to the debit of the trading account represents the factory cost of the goods manufactured during the period.

**9. Trading Account :-** The trading account is relating to the trading activities of a concern. The object of this account is to show the result of trading activities for a period. In the case of a trading concern it will include the items relating to purchase and sale of goods and stock in trade at the beginning and close of the year. All direct charges incurred in connection with the purchase of goods should be included in the trading account.

Where manufacturing account is prepared to show the profit on manufacture, the cost of sales is transferred to the trading account from the manufacturing account. The trading account is also debited with any finished goods purchased less any returns outwards and is credited with sales less returns inwards. The balance on the trading account then represents the gross profit or loss as the case may be.

**10. Profit and Loss Account :- (Proper) :-** The account is credited with the gross profit brought down from the trading account, along with any miscellaneous income such as discounts, interests, rent, dividend etc. On the debit side all the expenses incidental to the period under audit will appear. It would be the duty of the auditor to examine each item of expenditure to see that it is necessarily incurred in the course of business, that it relates to the period of audit

and that it is classified under proper head.

It is essential this account should be so drawn up as to disclose full information at a glance. It should also enable easy comparison of the various expenses and the sources of incomes with similar items of the previous years. The grouping expenses under different heads facilitate such comparison. The calculation of percentage of each group of expenses to the turn over or to the total expenditure affords valuable information.

In the Royal Mail Steam Packet Co-case, the question of auditor's responsibilities regarding the profit and loss account was raised. It was held that the auditor should see that the account represents a true view of the normal earnings of the business during the period under audit and that abnormal, items if any, should be shown separately in the account.

**11. Revenue account and income and expenditure account :-**In the case of non trading societies such as Co-operative Education Societies, hospital, societies and similar other types of societies, which do not undertake trading activities, it is common to term the "Profit and Loss Account" as "Revenue Account" or the "Income and Expenditure Account". However the principles for preparing these accounts are more or less the same as that for preparing the profit and loss account, the object being to disclose the excess of income over expenditure, or the deficit incurred during the period.

**12. Principles governing the preparation of profit and loss account :-**

- (1) There should items of income and expenditure as properly belong to the business should be included

in the account.

- (2) There should be proper grouping and classification of items so as to present a clear picture of the current earnings.
- (3) The whole account should be prepared, up on a consistent and uniform basis from year to year so as to facilitate useful comparison.
- (4) Adequate provision should be made for depreciation, bad debt and other losses.
- (5) Provisions of the bye-laws relating to creation of capital Redemption Fund, Sinking Fund, Guarantee Fund etc. should be strictly observed.
- (6) Interest payable on deposits, loans, debentures and other borrowings should be calculated and included in the account.
- (7) Transfers to profit and loss account from funds created out of past profits should be made.

## **PREPARATION OF BALANCE SHEET**

### **A. Verification of Assets and Liabilities**

**1. Balance Sheet :-**De Paula defines balance sheet as following.-

“A Balance sheet is not a statement of assets and liabilities, as is commonly through, but merely a ‘sheet’ showing a classified summary of all the balances appearing in a set of books, after all the nominal accounts have been closed by transfer to the Profit and Loss Account-the balance sheet including in one form or another, the balance on the

latter account". It shows, in a classified form, all the balances remaining in the books, after the nominal accounts are transferred to the Trading and Profit and Loss Account and the Corresponding accounts in the ledger are closed.

The balance sheet, no doubt, includes all the assets and liabilities of the business but in many cases, it includes items on both the sides, which are strictly speaking, neither assets nor liabilities. For example, debit balance, of the profit and loss account appears on the assets side, although it is not an "asset". Similarly statutory reserve fund and other reserves, credit balance of the profit and loss account, which appear on the liability side, cannot be termed as "liabilities". The balance sheet is expected to exhibit a true and fair view of the financial position of the society. Since the balance sheet includes other items as well, which are neither assets nor liabilities; it is necessary that these items should be correctly described so that the whole position will be clear.

Therefore it is the duty of auditor to satisfy himself that the balance sheet is properly prepared according to the correct and consistent accounting principles.

**2. Meaning of valuation of assets for the purpose of Balance Sheet :-**A comparison of the capital at the beginning of the year and at the close of the year would undoubtedly reveal whether the business runs at a profit and conversely decrease in capital is an indication of loss. Since the surplus of assets over liabilities represents the capital of a business concern, any such increase or decrease in surplus of capital represents the profit or loss made during a year. The term valuation in connection with the Balance Sheet can be interpreted as follows:-

- (i) The value may be the estimated amount that the assets would fetch, if sold or disposed of,  
i.e. the realizable value.
- (ii) Value may mean the amount that is estimated to replace the asset i.e. the replacement value.
- (iii) The amount that an asset costs, when purchased or acquired, less the provisions made for depreciation since its acquisition i.e. the written down value or going concern value.
- (iv) The balance of revenue expenditure which is being written off over a period of years,  
i.e. 'Deferred revenue expenditure or 'prepaid expenses'.

**3. Going concern value :-**Even through all the above basis for valuation may be used in connection with different classes of assets, ordinarily only the written down or going concern value is taken into consideration. Where the asset, in which part of the capital is invested, is of a wasting nature or consumed in the course of earning income, such wastage must be made good before true profit is arrived at. For this it is necessary to estimate the working life of fixed assets like buildings, plant, machinery etc.

**4. Form of Balance Sheet:-**As the Balance Sheet purports to reveal the financial position of the business, it follows that it should be drawn out in some intelligible form or order.

No definite rule can be laid down as to the correct order in which the assets and liabilities shall appear in the

**Balance Sheet.** Two methods of arrangement are employed. In the first, the assets are shown in the order of liquidity ie, cash and bank balances, which are most liquid appearing first followed by investments and other current assets, fixed assets and fictitious assets appearing last. The liabilities however, appear in the reverse order, viz, share capital and reserves appearing first and liabilities and provisions for credit balance of profit and loss account appearing last. The second method is in the reverse order of their realisability. That is, fixed assets are shown first, floating assets next and liquid assets like cash and bank balances in the last. On the liability side, liabilities are shown in the reverse order of repayment. Capital is shown first reserves next and credit balance of profit and loss account as last.

## **B. Verification of assets**

**1. (i) Fixed Assets :-** Verification of fixed assets by the auditor should be made with reference to the documents relating to their acquisition. A schedule of fixed assets at the beginning of the year and acquired during the year should be obtained and checked with the fixed assets register. It should be seen that all articles scrapped, destroyed or sold have been duly brought into account and their written down values adjusted. Physical verification of plant and machinery and other fixed assets, should be carried out periodically. A certificate should also be obtained from the management that all items scrapped, destroyed or sold have been duly recorded in the books.

**(ii) Floating or current assets :-** Floating assets are those assets which are acquired for resale or produced for the purpose of sale and consists of cash and such assets as are held for

purpose of conversion into cash in the course of regular business. Current assets are ordinarily classified under the following main heads:-

- (i) Interest accrued on investment and loans.
- (ii) Stock in trade in case of trading concern.
- (a) Stores and spare parts
- (b) Loose Tools
- (c) Semi-finished goods, work in progress and finished goods in case of manufacturing concerns.
- (iii) Loans outstanding and sundry debtors.
- (iv) Cash and bank balances etc.

Interest accrued on investments should be shown separately in the balance sheet. While taking interest receivable, adequate provision should be made for overdue interest. Physical verification of stock in hand and also work in progress will have to be carried out. For verification of loans outstanding and sundry debtors, ledger accounts and balance confirmations will have to be seen. Cash on hand should be counted and the balance at Bank confirmed by obtaining confirmation certificates from the Banks for all balances.

**(iii) Wasting assets :-** Wasting assets are those of a fixed nature and are gradually exhausted and used up in the course of working, such as a mine or quarry. It is difficult to assess how much a mine or a quarry has been exhausted and how much minerals remain. Therefore, the common method following in the valuation of this type of assets is to show it in the Balance Sheet at its original cost and



provision made for depreciation.

## **2. Valuation of different types of assets**

(i) **Good will** :- Good will is a peculiar asset. “It is a thing very easy to describe but very difficult to define” Good will is an intangible asset and will not appear in the balance sheet except in the case of purchase, when it should appear at cost. It represents the sum paid for anticipated future profits and therefore it is argued that it should be written off from profits. Since it is an intangible assets it is wise to write it down out of available profits.

It may not be easy for the auditor to verify the correctness of Good will which is assumed to be the capital value of extra profits which an average business would earn on the capital employed. From the auditor’s point of view, he will only have to see that its value is written down annually out of profits, in accordance with the resolutions passed, by the general body or by the Managing Committee. Where the consideration paid exceeds the market value of the assets acquired the excess amount paid will have to be treated as good will.

(ii) **Patents** :- These types of assets are not ordinarily possessed by Co-operative Societies. However, where they have been acquired, it should be verified by the inspection of the ‘patents’ themselves. The certificate of grant of the patent obtained from proper authority should be examined. The auditor should see that the cost of each patent is written off during the course of their expected life. The auditor should be careful enough to examine the last renewal certificate and satisfy himself as to the currency of patents.

(iii) **Trademarks** :- Verification of trademarks can be made by inspection of the certificates of registration or of

any assignment of the Trade Marks. Where the trade marks have been registered, the auditor must vouch the amounts treated as capital expenditure. Fees paid for renewal

should be charged to revenue account. The entire amount shown under trademarks should be written off during the life time of the trade mark.

(iv) **Copy rights:-** These will be acquired only by co-operatives which undertake publication of books. The Copy right Act 1957, ensures sole right to authors of books, articles etc. When the right is purchased, the written assignment must be examined and the price paid should be vouched. As far as possible, these assets should not appear in the balance sheet for a period longer than 2 to 3 years. The valuation of copy right should have regard to the prospect of future sales.

(v) **Plant and Machinery: -** Purchase of new plants and machinery will be vouched during the course of audit. In addition the auditor will also see and verify the invoices and receipts, the correspondence regarding the purchases and also contracts with machinery manufacturers and engineers' certificates. Where there are only a few machines, the auditor should personally inspect and identify them. Where the number of machines is large, he should obtain a schedule of plants and machinery. A certificate of their existence and efficient working should also be obtained from those responsible. The mode of valuation should be original cost less depreciation.

When the machines are sold or scrapped, the auditor must see that the machinery account is credited with the amount of their book value as on that date.

(vi) (a) **Free hold lands :-** The auditor should examine the title deeds and satisfy himself whether the society has got a clear title to the property. The last title deed should be examined to see that the property has been duly conveyed to the society. Encumbrance certificate should be obtained and verified. It should also be ascertained that extensions and alterations, if any, have been properly apportioned in between capital and Revenue expenditure. The auditor should also ensure that the property/building still continue to be in possession of the society.

The building should appear in the balance sheet at original cost. Depreciation reserve, created should be shown in the liability side.

(b) **Lease hold property:-** The lease should be inspected. Where the client is not the original lessee, the assignment made in his favour should be inspected. The auditor should ascertain whether conditions such as prompt payment of ground rent, maintenance of fire insurance etc., have been fulfilled. Otherwise, the lease might be forfeited. The lease hold property should appear at cost less proportionate depreciation for the period expired.

Where the lease hold property has been sublet, the counter part of the tenants agreement should be examined. The cost of lease hold property must be written off to Profit and loss account over the period of the lease, for at the end of the period of the lease, the property reverts to the lessor.

(vii) **Motor Vehicles :-** The auditor should verify the vehicles register or vehicles account. The auditor should also examine the registration book of each vehicle and satisfy himself whether the registration number and

description recorded therein agree with the particulars shown in the vehicles register. If the Society has got a fleet of vehicles it will be necessary to keep separate account of each vehicle. The expenses under repairs etc. should be charged to revenue and only the cost of major repairs carried out be allowed to be carried over to for one or two years so as to spread over the benefit of the expenditure over the period for which it is availed of.

The auditor should examine the adequacy of depreciation provided for. In special circumstances, such as accident etc., a special depreciation will have to be charged. As regards valuation the method adopted is original cost less the aggregate depreciation. In special circumstances, such as accident, etc. special depreciation will have to be charged. (Also see para III Chapter I).

**(viii) Tools, implements, furniture and fixtures, installation and fitting:** - Tools, implements, furniture, fittings etc. should be dealt with as in the case of plant and machinery and adequate depreciation should be charged every year, based on the working life of different items. In the case of fittings upon lease hold premises, the entire cost should be written off during the period of the lease or their estimated working life, whichever is shorter. A list of dead stock articles and office equipments should be obtained and the total agreed with the amount appearing against the item in the balance sheet.

**(ix) Library books:-** Purchase of costly books especially reference books and technical books, may be capitalized and shown under the heading "Library books". Library register should be maintained for all purchases under the item whether the expenditure is debited under revenue head or capital account. Periodical inspection and

physical verification of books should be conducted. 10% depreciation per annum may be charged on Library books.

(x) **Live Stock** :-A register of live stock showing the particulars of acquisition, identification marks (or name), price paid, depreciation charged etc. should be maintained. The basis of valuation should be revaluation at the end of each year. In the case of animals such as working bullocks, milch cattle etc., their working or useful life and their usefulness to the society should be taken into consideration. Calves; heifers and other young animals appreciate in value as they grow up. Necessary adjustments are made on the death or disposal of any animal.

### **3. Verification and valuation of current assets:**

(i) **Investments** :- Where investments are numerous, a complete schedule of all investments held, showing the nominal amount and full title of each investments, the book value and the market value thereof as at the date of balance sheet, should be obtained. The auditor should compare this schedule with the books and other records. The auditor should examine all the investments simultaneously and compare them with the schedule. He should see that the amounts and nature of investments corresponds with those shown in the schedule of investments. In case these securities have been entrusted with some bankers for safe custody the auditor should get a certificate from the bank about the nature of investments held by them and that they are free from any charge.

There may be instances where some of the investments have been sold subsequent to the date of the balance sheet, but prior to the date of audit. In such case the auditor should vouch the transactions.

Investments may be:-

- (1) Registered debentures, stocks and shares, Government Securities.
- (2) Inscribed stocks; and
- (3) Bearer bonds and share warrants

(ii) **Verification of Securities** :-Where securities lie in the custody of the Society the auditor should examine each script carefully. The certificates, warrants or the securities themselves should be examined carefully and seen that they are in the name of the society itself and that they are complete in all aspects and are registered in the name of the Society. Where securities are lodged with any bank for sale custody, a certificate to the effect should be obtained from the bank, specifying charge if any, held by them. Immediately after verifying the security or certificates, the auditor should put his initials or ticks against the particular item in the list of investments so as to prevent its presentation once again.

In the case of bearer warrants, it should be seen that interest coupons are in order and are attached to the script itself. The numbers of such coupons should have been noted on the schedule.

(iii) **Valuation of securities** :-An accepted basic principle is that profits should be taken to credit, only when the goods are sold and therefore on no account should the stock be valued above cost for the purposes of Balance Sheet. On the other hand, the wise method is to value at cost price or market price whichever is lower. The fact that the market price is higher on the date of balance sheet should in no way be taken into account, but on the other hand if

there is a fall in the price of goods which is lower than the cost price, then the market value should be taken as the basis of valuation.

As regards the duty of the Auditor in the valuation of assets, he need not be valuer. The actual valuation is to be done by the management; the auditor is concerned only with the correctness of valuation. He is required to ascertain that the valuation made appears to be fair and reasonable according to the accepted principles. He must make sure that no circulating asset is valued above the cost price on any account. An auditor is guilty of misfeasance, if he fails to detect the over-valuation of important assets like work in progress when ample evidence is available for checking the accuracy of the figures given to him. (West Minister Road Construction and Engg; Co., Ltd., case)

**(iv) Verification of mortgage deed and time barred cases :-** While verifying the mortgage deeds care should be taken to prevent substitution of bonds. A particular bond may be produced twice before the auditor against payment of two or more of similar amounts. This kind of fraud is quite common and therefore the auditor should be careful to guard against such substitution.

During verification the auditor should locate time barred cases also and spot out cases on which immediate action is required.

#### **4. Stock in trade:**

**(i) General :-** As the correctness of the profit and loss account of a trading concern depends to a large extent on the accuracy of the valuation of the stock in trade at the date of the Balance sheet, the verification of this form of assets forms a very important part of the duty of the

auditor. He has also to see that it is valued according to certain accepted principles of accountancy.

***(ii) Verification of physical existence of stores :-***

The stock should be taken on the last day of any particular period. The process of verifying physically the existence of each item of stock at the close of the year or at the end of any specific period is known annual or periodical stock taking. Complete physical counting, weighing or measuring of all the stock on hand should be made as at the end of the year in the case of all societies which undertake trading or manufacturing activities.

***(iii) Method of stock taking :-***Stock taking means measuring or weighing and counting of goods on hand on a particular day and valuing them. It involves two things.

(i) Ascertaining the quantity of goods by means of weighing or measuring or counting as the case may be, and

(ii) Valuing them based on some accepted principles of accountancy. Verification of stocks has to be done immediately after the close of transaction of the last day of the period. One person should call out the quantities and descriptions and another should enter them on the stock sheets. Later on the price at which each item is to be valued is noted by a responsible official in the stock sheet and calculation and casting being checked by another. The completed stock sheets should be certified by the Secretary/Manager/Custodian of Stock/Directors as the case may be. While verifying the stock the following precautions are to be taken:-

- (1) All goods not in the premises, but in respect of which invoices have been passed through, should be included in the stock sheets.



- (2) The items of purchases which have reached the premises, but the corresponding invoices have not been passed through the books, should not be taken into stock. But it should be treated as stock in transit. If such items are taken into stock the cost of the same should be shown as purchases pending payment.
- (3) Goods sold and treated as sales in the accounts but not yet delivered to the customers should be excluded from the stock list.
- (4) Goods which are held on behalf of third parties, by way of consignment, or agency, should not be included in the list.
- (5) Goods which have been sent out “On sale or Return” and as are not yet accepted or returned by the customers should be included in the stock.
- (6) Stocks sent on consignment should be included.
- (7) Unsold goods on consignment should be valued at cost price and not at selling price. The stock sheet should contain the following columns.
  - (i) Serial No. and name of goods
  - (ii) Quantity actually verified.
  - (iii) Quantity as per the Stock Register.
  - (iv) Quantity excess or deficit.
  - (v) Quantity value excess or deficit.
  - (vi) Rate of value per unit.

(vii) The amount of value.

(iv) ***Checking of stock sheets/statements.*** Stock statements, duly attested by the stock verification officers and finally presented to the Auditor should be compared with the balances in the stock accounts and the discrepancies noted should be got clarified.

After examining the whole system of stock taking, the auditor should check the stock sheets as follows:-

- (i) Check the totals of the stock sheets.
- (ii) Check calculations bearing in mind that items calculated as singles, may, in fact be doubles, dozens, or even grosses.
- (iii) Compare stock sheets with those of the previous years, particularly as regards quantities and also ascertain whether any part of the stock has been held for a long time and obsolete.
- (iv) Examine the Goods Inward Book for the last few weeks of the period and trace any large item into the stock and into the purchase Register.
- (v) Trace any large scale sales towards the end of the period into the Goods Despatched Register and make sure that the goods if undelivered, have not been included in the stock.
- (vi) Where quantities can be checked easily, this should be done by deducting the total sales from the total purchases plus opening stocks.
- (vii) Enquire whether any goods belonging to the Society are in the hands of the consignees, selling agents, or

distributors or lying in depots or warehouses.

- (viii) While examining stock sheets, it should be seen that no plant, machinery, tools, furniture and similar other capital goods are not included in the stock.
- (ix) After the Trading Account is drawn up and the amount of gross profit arrived at, compare the percentage of gross profit to sales with that of the previous. If there is any marked difference, the reasons for such short fall should be enquired into.

(v) ***Basis of Valuation :-*** Stock in trade is a floating asset and hence realisable value is the basis of its valuation. “Valuation at cost or market price whichever is lower” is the accepted rule. This rule is based on the principle that no profit should be taken to credit until it is actually realised and that provision should be made for anticipated losses.

As regards the Market value, it may mean either the replacement value or realisable value. The replacement value is the amount necessary for purchasing or manufacturing the goods as on the date of the Balance sheet. The realisable value is the value that would fetch if the stock were sold on that date. Which of these two values is to be adopted is determined with reference to the class of inventory. When the market price is lower than the cost price, stock is valued at the former, i.e., loss is anticipated. This method of bringing down the stock into the account at a reduced value is known as, writing down.’

(vi) ***Evaluation of Pipe Line stock :-*** Stock in trade is valued at cost or market price, whichever is less. In the case of retail stock also the same principle is followed.

Maintenance of stock register and stocking of balances in it after issue at godowns is necessary, so that

when a physical verification of stock is done, it can be compared with the stock register and reasons for difference, if any, investigated. The Auditor should watch whether goods received first are issued first.

(a) **Inflated price** :-This method can be used only when an item is subject to natural and necessary wastage. The price of such goods is inflated to cover this wastage. This is an important point which should be noted by the Auditor while checking price fluctuation slips. Ex:- Vegetables, fruits, fish etc.

(b) **Abnormal losses** :-This arises due to inefficiency, negligence, mischief or bad luck etc. Such losses are avoidable to a great extent. Therefore the auditor should not allow minus fluctuation in prices of goods in such cases unless he gets satisfactory explanation for the same.

(vii) **Cost** :-its meaning.-The elements that constitute cost are.-

- (a) the purchase price of goods, stores and in the case of purchased stock, materials used in manufacture,
- (b) direct expenditure incurred in bringing stock in trade to its existing condition and location and
- (c) indirect or overhead expenditure incidental to the class of stock in trade concerned.

Whereas the cost of items (a) and (b) can be worked out with substantial accuracy, the cost towards item (c) ie, indirect or overhead expenditure can only be a matter of calculation. If indirect or overhead expenditure is expressed as a percentage of actual production the amount added to the stock valuation will fluctuate from one period to another according to the volume produced. To avoid distortion of

revenue results, in some cases indirect or overhead expenditure is eliminated as

an element of cost when valuing stock in trade or alternately, only that part which represents fixed annual charges is excluded. In other cases, an amount is included which is based on the normal production of the unit concerned.

(viii) **Method of computing cost** :-The following are basis usually adopted in practice for calculating cost.

- (a) **Unit cost** :- The total cost of stock is calculated by totalling the individual cost of each article, batch, parcel or other unit. But in some cases it is impossible to identify the stock on hand with the various consignments purchased and it will involve undue time and labour.
- (b) **First in and first out** :- This method is adopted on the assumption that the goods are consumed as and when they arrive and those on hand represents the latest purchase.
- (c) **Average cost** :- This basis entail averaging the book value of stock at the commencement of a period with the cost of goods added during the period after deducting consumption at the average price, the periodical tests for calculating the average being as frequent as possible having regard to the nature of the business.
- (d) **Standard cost** :-This is a predetermined or budgeted cost per unit. It is coming more into use, particularly in manufacturing or processing industries where several

operations are involved or where goods are produced on large scale.

(e) **Adjusted selling price** :-This method is used widely in retail business. The stock is valued at the first instance on the basis of selling price and deducting therefrom a certain percentage representing the gross profit.

(f) **Base stock** :-Under this method an agreed quantity of stock is valued at a fixed price each year, this price being below the original cost price of the “Base Stock”. The excess on this fixed quantity can be valued at cost price or market price whichever is less.

(ix) **Market value** :-The market value is interpreted by some as replacement value, ie. what it would cost to purchase similar quantities at the market price ruling on the day of the balance sheet and by some as realisable value, ie. the net amount that would be realised if sold at the price ruling on the day of balance sheet. The general practice as regards stores and raw materials is to value them at the lower cost or replacement value. In the case of finished goods it is the lowest cost or net realisable value which is generally adopted. It is an accepted principle that the assets should be valued for the balance sheet purposes on a going concern basis. So it is suggested that all inventories of stores like, raw materials processed and semi processed and finished goods, etc., should be valued at cost or at the net realisable value of the finished goods.

(x) **Auditor’s duty with regard to stock in trade**: - The accuracy of the balance sheet largely depends on the correct valuation of stock in trade. Since falsification of accounts is frequently effected by means of manipulation of the stock list, the auditor should be very careful in the verification and

valuation of stock in trade. It is impracticable for the auditor to take, inspect or value the stock himself. He has to rely largely on the internal check in force and on the officials' certificate. Therefore, the auditor should exercise reasonable care and skill with a view to satisfy himself as to the correctness of stock taking and valuation. The work of the auditor in most cases may be summarised as follows:-

- (1) Casting and a proportion of the calculations of major item in the stock sheet should be checked.
- (2) The quantities shown in the book should be compared with the actual stock verified. Differences, if any, should be enquired into.
- (3) Where stock is held by agents or warehouses, their certificate should be obtained and compared.
- (4) He should verify whether all goods included in the stock are also included in the purchases by examining the Goods Received Books, for the last few days of the period and testing invoices for the new period.
- (5) The basis of valuation should be enquired into. It should be seen that the stock is valued at cost or market price whichever is lower on the date of the balance sheet and that the value of the finished goods is below the market price. The items of obsolete and defective stock should be valued at their respective realisable value.
- (6) The percentage of gross profit on turn over should be compared with that of the previous period and the causes of marked fluctuation, if any, should be enquired into.
- (7) It should be seen that the stock sheets have been

properly certified by some responsible official, the parties concerned in the preparation having initiated them.

The most important point to be considered by the Auditor in this matter is to ascertain whether the same basis is adopted from year to year. If consistent basis is not so adopted, the trading results shown by the accounts would become distorted. The Auditor will do well if he states in his report the extent to which he relied on the certificate of the management. Any matter which is not up to the satisfaction should be dealt with in his report.

**(xi) Valuing of by-products :-** In manufacturing and processing societies, which yield by-products, (for example, molasses in sugar factories, cotton waste in spinning mills, oil cakes in oil mills, broken rice in rice mills) it may not be possible to ascertain the cost of the by-products. In such cases, by-products may be valued at their current ruling prices in which case, the cost of the main product must be calculated after crediting the anticipated sale proceeds of the by-products. The selling price basis of valuation may be adopted in farming societies producing crops with an annual cycle and on the date of the balance sheet, the crops harvested may be valued on the basis of prices likely to be realised after deducting selling cost such as expenses connected with marketing etc.

## **5. Valuation of different classes of stock:**

The method of valuation varies with the nature of the inventories.

**(i) Raw materials:** - Raw materials are, in general, valued at cost or the market price, whichever is less. The proportionate amount of freight and other charges paid for



the same is added to the invoice price.

When the stock contains goods purchased at different prices, the average price may be taken into consideration. Consequent on the fall in the price of finished products, if any definite loss is anticipated in the succeeding year, it may be desirable that the value of raw materials should be correspondingly written down.

It is the custom in some trade to value the stocks of raw materials above cost when such stocks mature with age and increase in value, eg. wine, timber, tobacco etc. in order to cover the storage charges and interest on capital locked up in such stocks. The auditor should ascertain that the stocks are not valued at an excessive amount and that the values are properly certified and do not exceed the market value of similar stocks.

**(ii) *Semi-finished goods or work in progress* :-** Work in progress is represented by the materials and work done in respect of incomplete contractors or partly finished goods. The item should be valued at cost price i.e. raw materials consumed, wages and direct charges expended thereon up to date, with a reasonable sum for over head charges. Provision will have to be made for anticipated loss. Therefore, it is better if these items are valued at current standard cost or at the net realisable value in the form of finished products.

**(iii) *Finished goods* :-** Finished goods which have been purchased are valued at cost, i.e. invoice price. The goods which are manufactured by the concern should be valued in the same manner as semi-manufactured goods. The auditor should see that such finished goods are not valued at a price higher than the price of the similar goods prevailing in the market.

The recommendations of the council of the Institute

of Chartered Accountants in England and Wales, on the treatment of stock-in-trade are given below:

“No particular basis of valuation is suitable for all types of business but, whatever the basis adopted, it should be applied consistently, and the following considerations should be borne in mind.

- (a) Stock in trade is a current asset held for realisation. In the balance sheet it is, therefore, usually shown at the lower cost or market value.
- (b) Profit or loss on trading is the difference between the amount for which goods are sold and their cost, including the cost of selling and delivery. The ultimate profit or loss on unsold goods is dependent upon prices ruling on the date of their disposal, but it is essential that provision should be made to cover anticipated losses.
- (c) Inconsistency in method may have a very material effect on the valuation of a business based on earning capacity, though not necessarily of importance in itself at any Balance Sheet date.”

(iv) **Spare parts:** - Spare parts which are used for the upkeep of plant and machinery, should be valued at cost. Obsolete spare parts of out-of-date plant and machinery should be written off or written down. The auditor should get a complete list of spare parts certified by the Officer in charge of the factory, as to its current use.

(v) **Goods on consignment:** - In respect of goods sold on consignment basis, a certificate should be obtained from the consignee in respect of the stock on hand on the date of Balance Sheet. The unsold consignment of goods

mentioned above should be valued at cost price plus proportionate expense etc. The auditor should be careful to see that any balance of stock of consignment inwards is not included in the stock last.

## **6. Sundry Debtors :**

”Sundry debtors” include all amounts due in respect of goods sold on credit, services, rendered on in respect of other contractual obligations, but should not include any amounts which are in the nature of loans or advances which should be shown under the separate heading of “Loans and advances” or loans “or loans due from members.”

(i) *Outstanding advances* :- Outstanding advances are usually include in ‘Sundry Debtors’,. But many times, it is shown under a separate heading Advances should be given only for specific purposes and the director of employee to whom the advance has been given should render necessary accounts as soon as the purpose for which the advance has been given, have been served. Where advances have been made or deposits kept with suppliers against order, the advance paid should have been adjusted in the invoice, or deducted from the total amount of the Bill. Where there are long pending advances the auditor should make a note of all such cases and obtain the explanations of the management or the officers concerned. If the explanation given or the clarification furnished is considered not satisfactory, the auditor should keep such payments in his schedule of irregular payments. If the amounts involved are large and no satisfactory explanation has been offered, the auditor should examine whether a case of temporary misappropriation can be made out.

(ii) *Checking of outstanding advances*:-A statement

of all items appearing under the heading “Sundry Debtors” “Advances outstanding” etc. should be obtained and agreed with the figures appearing in the Balance Sheet. Sundry debtors for credit sale should be distinguished from other debtors such as debtors for advances, deposits against orders or advances against purchases and advances to directors and officers. The schedules should be checked with the personal ledgers and other records and the total agreed with the amount shown against the items in the balance sheet. While checking ledger balances on the schedules, notes should be made showing the period during which the amount has been outstanding, whether it has been subsequently recovered and if not, why it has been allowed to remain outstanding and whether any action has been taken for its recovery. A list of all accounts, which are overdue, should be prepared and checked by the auditor.

**(iii) Deposit with Suppliers:-**As regards deposits with suppliers or for services, it should be seen that these are of a normal character, such as deposit for telephone connection, security deposit with Municipalities Electricity Board etc. In such cases, the auditor should verify the receipt issued by them and should obtain confirmation as evidence of the deposit. Where deposits of a special character or of a substantial amount are made, these should be verified according to the circumstances of each case and their adjustments watched.

## **7. Loans outstanding:**

Loans outstanding in Co-operative Societies except those doing banking business, are generally fixed loans which are payable either in lump or in installments as may be specified. Loans advanced to members would be different according to the nature of the business operations

conducted by the society and the nature of the security which, the borrower can offer.

Loans are generally classified according to the nature of securities offered by them. Loans may be grouped under two broad heads (i) secured loan and (ii) unsecured loans. All loans which are backed by material securities are considered as 'secured loans' and others are called unsecured loans. Even the unsecured loans are based on the credit worthiness of the borrower and backed by his capacity and willingness to repay. The method of checking loans outstanding is explained below

The auditor should obtain a list of loans and advances outstanding on the date of the balance sheet and should check it with the loan ledgers and the total of the balance agreed with the balances appearing in the General Ledger. In checking the balance of loans, emphasis should be given on the following points:

(i) ***Amount outstanding:-*** If the byelaws have prescribed individual maximum limits for different types of loans, the outstanding balances in any account should not exceed such maximum limits. Where special loan or loans in excess of the prescribed limits have been sanctioned to any individual or institutions, authority for the same should be verified.

(ii) ***Period wise classification of loans outstanding***  
:-The auditor should examine whether the loans has become overdue and whether proper extensions has been granted. If the period of repayment has not been extended, how long the loan has been overdue and what effective steps have been taken for its recovery should also be examined.

**(iii) Security for the loans :-**The auditor should examine the nature and adequacy of the security and its realisability. If the loan has been sanctioned against personal security, he should ascertain sureties are alive and good, for the outstanding amount. If they are secured, he should check up whether value of the security offered adequately cover the outstanding balance and also the interest accrued and accruing and also whether it can be easily realised.

**(iv) Reasons for the debts becoming irrecoverable :-**The auditor should also examine the circumstances which indicate the debts becoming irrecoverable, due to death, resignation or removal from service of the borrower or his sureties, insolvency of the borrower, or attachment of the property or salary under any order or decree of a Court. Where the loan is repayable in installments he should examine whether all the previous installments have been properly paid as and when they became due.

**(v) Loans to Committee members :-**Along with the Balance Sheet and Profit and Loss Account, the auditor should attach a list of loans, if any, given to the members of the committee and their family members. In the case of loans issued to the members of the committee, the auditor should specially look into the nature of security offered and its adequacy, whether the purpose for which the loan was sanctioned was those contemplated in the byelaws, whether any relaxation in the repayment of installment has been allowed etc. The byelaws of certain societies stipulate that the loans issued to the members of the committee should be ratified by the General Body. This would ensure that members of the Committee taking advantage of their position do not appropriate large funds of

the Society by sanctioning to themselves disproportionate loans. The auditor should therefore ensure that such provision of the byelaws have been complied with.

*(vi) Assessment of bad and doubtful debts :-*The balance sheet and profit and loss account of the Society checked and certified by the Auditor should disclose fairly and accurately the financial position of the Society as on the date of balance sheet. In credit societies, loans outstanding form a major portion of the assets. Therefore examination of debts is one of the most important work of the Auditor. Outstanding loans and advances in banks and credit societies consist of current dues and overdues. An overdue account is one in which the principal outstanding or any portion thereof or any installment which has become due has been defaulted. A bad debt is one considered to be irrecoverable. Such a debt will have to be written off against the Bad Debts Reserve or any other reserve marked for the purpose. A doubtful debt is one, the recovery of which in whole or in part is uncertain. All such debts should be carefully examined and adequate provisions made against such debts.

As suggested by Spicer and Pegler, the following points should also be considered while examining the Debtors' ledger balances for this purpose:-

*(a) The term of credit allowed by the Business:-*

[The debts, the term of credit of which is not yet expired, can safely be treated as good debts, in the absence of any other circumstances contrary to such course].

*(b) The settlement of accounts within the period of credit, taking advantage of cash Discount whether regular or irregular:-*

[The debts which are regularly settled should be considered as good. In the case of debts which are not regularly settled, the causes for such irregularity should be examined].

*(c) The age of the debt:-*

[Time barred debts should be reserved in full. Long outstanding debts should be considered with their relevant circumstances to decide whether they are good/bad or doubtful.]

*(d) Whether the balance has tended to increase, in spite of payments being made on account:-*

[Such cases should be considered carefully and reserves should be created, if necessary.]

*(e) Whether an old balance is being carried forward to be paid off in installments, new goods being supplied for cash:-*

[The payment of an old balance by installment is nearly a sign of weakness. The old balance may be treated as doubtful and necessary reserve created].

*(f) If payments are used to be made by acceptance of bills whether any bill has been dishonoured or retired or constantly renewed:-*

[Frequently dishonour or renewal of bills is certainly an evidence of weakness. Such cases should require careful consideration].

*(g) Whether any cheque received on account has been dishonoured:-*



[Under these circumstances, the debts should be considered doubtful and reserve created.]

*(h) Whether notes appear upon the account such as “Accounts suspended”, “In solicitor’s hands”, “In insolvency:, or “In Liquidation”, “Disappeared and whereabouts unknown”, etc:-*

[Notes of suspension of accounts etc, made upon the top of the account provides the best means of information to study the position of the debt].

***(vii) Classification of debts into bad and doubtful***  
:-To classify a debt as bad or doubtful, the two main considerations are (i) the security for the debt and (ii) the period for which the debt has been defaulted. For example, if the security for a particular loan is reduced to nil and the loan has been outstanding for a fairly long period, there is every probability of its becoming bad. If the security has been impaired, debt outstanding has been overdue for a period, which is not considered too long, the debt may be termed “doubtful” and classified as such.

***(viii) Procedure for classification of debts into good, doubtful and bad*** :-A list of overdues with full particulars regarding age, security, action taken for recovery etc., should be obtained by the Auditor before he examines and classified them into good, doubtful and bad. This list should be carefully scrutinised with reference to the security available and the age of the over-dues. After careful examination of all overdues accounts in the above manner, the auditor should classify the overdues into good, doubtful and bad. In order to enable easy assessment of doubtful and bad debts by the auditors, it is necessary that all the account books and registers are maintained up to date.

***(ix) Procedure for writing off of bad debts statutory provisions :-*** Rules 62 of the Kerala Co-operative Societies Rules 1969, reads as follows:-

(1) Such of the dues to the Society including loans and interest thereon which are found irrecoverable and duly certified as such by the auditors appointed under section 63 may be written off with the approval of the General body and sanction of the Registrar.

(2) Before sanction for the write off is accorded the opinion of the financing bank may be obtained if the Society is indebted to the Financing Bank. (Registrar's Circular No.93/75 G3- 11491/75 dated 11-11-1975.)

***(x) Auditor's responsibility for certifying bad debts :-*** The auditor assumes a great responsibility in certifying the loans as bad as all amounts certified by as bad would be written off. He has, therefore, to be very careful in certifying a debt or loss as bad or irrecoverable. In case of irrecoverable loans, it has to be seen that cases of the defaulters were referred to arbitration in time and awards obtained which were sent up in time for execution, but returned by the recovery officer as the Principal debtor or sureties had no assets or income which could be attached. In the case of debts, which have become time barred due to inaction or negligence on the part of the Committee/Officers, proceedings should have been instituted against persons found to be negligent.

The following additional conditions are also to be fulfilled for writing off bad debts:

(i) Sanction of the General Body should have been obtained.

(ii) Prior approval of the Registrar and the financing bank to which the society is indebted should have been obtained in writing. If the society/Bank is not affiliated to the Central Bank/State Co-operative Bank, or is affiliated but not indebted to the Central/State Co-operative Bank, prior approval of Registrar should be obtained.

**(xi) Provision for bad and doubtful debts :-**Before arriving at the figure of net profit, adequate provision is required to be made for all amounts required to be written off as bad debts and losses which cannot be adjusted against any fund created out of profits. A fair estimate of the likely bad debts has to be made, every year and necessary provision made for writing them off. However, no bad debt can be written off against current profits.

**8. Fictitious Assets :** - There are certain assets which sometimes appear in the balance sheet. They may be representing capital expenditure which may not have resulted in identifiable profit earning assets and which still remains to be written off. Common examples of fictitious assets are preliminary expenditure or formation expenditure, development expenses, etc. The Auditor should check the balance carried forward from year to year and ascertain the reasons for their continuance.

**9. Preparation of Financial Ratios :-**A financial ratio is an arithmetical expression of the relationship between two figures produced as a result of normal accounting process. Such figures may include figures of gross profit, net profit, current assets, current liabilities, fixed assets, sales or turnover, working capital etc. The advantage of preparing financial ratio is that performance and financial position can be properly judged. Ratio may be based on the figures in the balance sheet, profit and loss

account or in both.

The following are some of the important ratios,-

(i) **Current ratio** :-The current ratio is also called *working capital ratio*.

$$\text{Current ratio} = \frac{\text{current assets}}{\text{current liabilities}}$$

(ii) **Acid test ratio or quick ratio** :-This is a part of current ratio and is found by comparing liquid resources, with current liabilities. This ratio is of great importance for banks and financial institutions, but not for ordinary trading and manufacturing concerns. This can be calculated in dividing liquid resources or quick assets by current liabilities.

(iii) **Proprietary ratio** :-The ratio discloses the relationship between the equity of the owners or proprietors and that of creditors. ie., the ratio of the amount invested by the owners (capital +

Reserve and surplus) to the amount invested by creditors. Thus the proprietary or equity ratio is worked out by dividing capital employed by liabilities.

This ratio exhibits, the proportion between owned capital and borrowed capital. Any short fall in the volume of sales or any delay in the collection of bills may create financial difficulties for the business to discharge its obligation promptly. Hence a low proprietary ratio is viewed with much anxiety.

(iv) **Capital employed ratio** :-The ratio of capital to non-current or fixed assets is used to ascertain the extent to

which the owners have invested their capital in fixed assets which constitute the maximum structure of the business.

(v) **Stock turnover ratio** :-This ratio exhibits the number of times the average stock is turned (or sold) during a given period. To ascertain the number of times the average stock is turned, the cost of goods sold is divided by the average stock.

(vi) **Debtors' turnover ratio** :-The ratio of debtors to debtor Turnover (Credit Sales) shows the average period of credit allowed. The amount due from debtors is divided by the average daily or monthly credit sales.

(vii) **Creditor's Ratio** :-The ratio of creditors to credit purchase amount, shows the average period of credit availed by the institutions.

(viii) **Gross profit ratio** :-The Auditor can calculate the gross profit ratio by gross profit x 100

using the method -----  
Net Sales

The higher the gross profit ratio, the better is the position of the institution.

(ix) **Net profit ratio or margin** :-This measures the rate of net profit

Net profit x 100 earned on sales. The ratio can be calculated by -----

Net sales.

The auditor should bear in mind the above factors in arriving at a decision as to the financial soundness of the institution. He should try these exercises and ascertain the financial soundness, working result etc., of the institution and make his observation in the auditor report accordingly.

### **10. Verification of cash balance :-**

(i) **Cash on hand :-** This is the first item of work to be attended to by the Auditor while conducting mechanized checking of the accounts. In a village credit society the auditor should see whether the cash book/Day book has been written up to date/ If it is incomplete, he should see that it is brought up-to-date, and balanced. Then he may test check a few receipts and vouchers of the transactions carried out during the last four or five days. He should then verify the actual cash balance and satisfy whether it agrees with the book balance. The result of verification of the cash balance should be recorded in the cash/day book. In the case of a bigger society, it is always convenient to verify the cash balance either before the day's business or after it is over. However, if surprise verification is necessitated in view of the peculiar conditions prevailing, he may visit the society in the course of the working hours and ask the society or any other official who maintain the "scroll" or rough chitta to close it. Therefore, if the day book is incomplete at the time of verification, the auditor can verify the cash balance with reference to the cash book/cash scroll maintained by the cashier, and sign it after recording the result.

If there is more than one balance, as will be the case where there is a cashier as well as a petty cashier, all the balances should be verified at the same time to avoid one being utilised to supplement/substitute the other.

If the person responsible for custody of cash balance fails to produce it to the auditor for verification, he has to issue a summon and take action as per provisions of the Kerala Co-operative Societies Act.

*(a) Specimen form of Summons:*

**Issued under Section 63 of the Kerala Co-operative Societies Act 21 of 1969**

Whereas I, Shri. ....  
have been appointed to audit the accounts of  
..... Society and whereas  
documents relating to the Society have to be  
scrutinised by me for the said purpose, I hereby  
require you, Shri.

.....  
President/Secretary/Manager of the said

.....  
Society to be present with the following at

..... a.m./p.m. on. .... in  
the office of the Society or in the premises of  
.....

Given under .....my hand  
and seal this day .....

of ..... 19.....

**Signature .....**

**Designation .....**

1. Cash balance of the Society. 2. Books do.

3. Records and documents of the Society. To  
Shri.....

(Full address)

### **(b) Certificate of verification**

#### **FORM OF CERTIFICATE**

‘Cash balance of Rs...../- (in words

.....

was verified by me and found to agree with the day/cash book  
balance as at the beginning/close of

.....”.

### **Signature with date Designation**

#### **(C) Auditor’s responsibility for verifying cash on hand**

It may be mentioned that most of the frauds relating to the cash on hand have come to light only when the auditor visits the society and asks for the production of cash balance for verification. In addition to the auditor, other inspecting officers of the department as well as of the Financing Bank can demand production of the cash on hand for verification. If all the inspecting officers make it a point to demand production of cash balance at the time of their visits to the Societies, there would be considerably fewer cases of misappropriation. The auditor should also obtain certificate in the following form regarding cash on hand on the date of the balance sheet.



“Certified that the cash balance mentioned in the balance sheet as at the 30th June 19.....

represents cash on hand in the Head Office and all the branches, of the Society/Bank situated at different centres in the area of operation of the Society/Bank and custody certificates in respect of all these cash balance have been obtained from the Manager/Accountant/Cashier/Agent, etc. of the branches concerned. The above certificate has or be got signed by the Chairman/President and the managing Director or other principal Executive Officer of the society”.

(ii) **Cash at Banks :-**Every co-operative society will have a Bank account. All co-operative societies are generally permitted to open accounts with District/Central Co-operative Banks of the concerned District. But in certain case, if circumstances necessitate, the societies may open account with Commercial Banks with the previous sanction of Registrar. All cash balance in excess of the limit prescribed in the byelaws has to be invariably deposited in the Bank Account. Cash in Bank on the date of Balance Sheet can be verified by means of pass Book, bank statements and the bank balance certificate. If the balance does not agree, it will be necessary to prepare a reconciliation statement. The auditor should himself write to the Bank/Post Office for confirmation certificates of all the accounts of the society with the Bank/Post Office.

(iii) **Counting of cash - Precautions :-**The inspecting officers and auditors have to take certain precautions while verifying the cash balance. If different cash balances are maintained, such as cash with local branches and depots etc. all the cash balances have to be called for simultaneously and verified as there is always the danger of substitution/supplementing. When coins of different denominations are sorted out and kept in separate bags

duly sealed, the bags are not to be opened except in the presence of responsible officers.

**(iv) Measures to be taken for preventing temporary misappropriation :-** Temporary misappropriation can be committed by deliberately delaying payment into Bank. Cash Balance can also be misappropriated temporarily by taking wrong totals and/or by wrong extraction and carrying forward the cash balance. The Auditor should enquire the reasons for payment of advances to the members of staff and directors. It should be seen that advances made are genuine and for proper reasons. Unless the cash/day book is written up to date and the exact cash balance ascertained, counting of cash will have no meaning. It is therefore, necessary for the inspecting officers to see that the Day/Cash Book is written up to date always.

## **COMPUTERISED ACCOUNTING**

A computerized accounting system involves the computerization of accounting information systems which is established in order to facilitate decision making. These are associated with a numbers of benefits like speed of carrying out routine transactions, timeliness, quick analysis, accuracy and reporting.

A computerized accounting system is defined by Marivicas “A method or scheme by which financial information on business transactions are recorded, organised, summarized, analysed, interpreted and communicated to stakeholders through the use of computers and computer based systems such as accounting packages”. He emphasised that it’s a mechanized process of facilitating financial information inflows as well as the automation of accounting tasks such as database recording and report generation.

Keeping accurate accounting records is a vital part

of any organization. Apart from helping it to keep its float financially and legal, it is a requirement of funding bodies or donors. However computerized accounting system involves the use of computers to handle large volume of data with speed, efficiency and accuracy aimed at overcoming fundamental challenges which do not change the principle. The principle of accounting remains and the limitations of manual accounting is eliminated at the same time and hence producing quality and reliable work.

Accounting software's are used to implement computerized accounting system. The computerized accounting is based on the concept of database; it is basic software which allows access to the data contained in the database. The following are the components of computerized accounting software.

1. Preparation of accounting documents Computers help in preparing accounting documents like cash memo, bills, invoices and accounting vouchers. Here computerized accounting systems have user defined templates which will provide faster, accurate entry of transaction and therefore all documentation and reports can be generated automatically.
2. Recording of transactions Everyday business transactions are recorded with the help of computer software. Every account and transactions is assigned a unique code where the grouping of account is done at the first stage. This process simplifies the work of recording the transaction.
3. Preparation of trial balance and financial statements. After recording of transactions, the data is transferred into ledger accounts automatically by the computer. Trial balance is prepared by the computer to check

accuracy of records, with the help of trial balance; the computer can be programmed to prepare the statement of comprehensive income and the statement of financial position

**Benefits of Computerized accounting systems are as follows:**

1. Computerized packages can quickly generate all types of reports needed by management for instance budget analysis and variance analysis. Data processing and analysis are faster and more accurate which meets the managers need for accurate and timely information for decision making.
2. The speed with which accounting is done is immense and further a computerized accounting system can retrieve balance sheets, income statement or other accounting reports at any moment.
3. A computerized accounting system allows managers to easily identify and solve problems instantly.
4. The business performance improves as a result of computerization of the accounting systems and its highly integrated application transforms the business processes by enhancing the accounting, inventory control, reporting and statutory processes.
5. This helps the company access information faster and takes quicker decisions as it also enhances communication.
6. Computerized accounting systems ease auditing and have better access to required information such as cheque numbers, payments, and other transactions which help to reduce the time needed to provide this type of information and documentation during auditing.

## **MODULE – V**

### **CO-OPERATIVE AUDIT**

The origin of audit can be traced to the need to ensure that a person who comes into possession of money or property belonging to another has properly accounted for it. The system of checking records of financial transaction in earlier time was confined to the scrutiny of cash transactions. Moreover, such checking was limited to only public accounts.

The person whose duty it was to check such accounts became known as the Auditor, the word being derived from the Latin word ‘Audire’ meaning to hear, as originally the Auditor merely used to ‘hear’ the accounts to pass the transactions as genuine or correct.

Audit was originally confined to ascertaining whether the accounting party had properly accounted for all receipts and payments on behalf of his principal and was merely a cash Audit. The object of modern Audit, although it includes the examination of each transaction, has as its ultimate aim, the verification of the financial position of an undertaking.

Audit is, therefore, an examination of accounting records undertaken with a view to establish whether they correctly and completely reflect the transactions to which they relate. Audit does not entail preparation of the accounts alone but deals with something more, namely the examination of a Balance Sheet and Profit and Loss Accounts prepared by others, together with the books of accounts and vouchers relating thereto in such a manner that

the Auditor may be able to satisfy himself and can honestly report that, in his opinion, such balance sheet is properly drawn up and exhibits a true and correct scenario of the State of affairs of a particular concern. Audit is, thus, an instrument of financial control. It acts as a safeguard on behalf of the proprietor against extravagance, carelessness or fraud on the part of the agents and servants of the society in the realization and utilization of money or other assets. It also ensures to the Proprietor/Shareholders/others that the account has been maintained correctly and the expenditure has been incurred with financial regularity and propriety.

The main object of audit today is to find out whether the accounts of a particular concern exhibits a true and fair view of the financial State of affairs. Allied purpose of audit, which are incidental to the main object, are to detect errors, fraud etc. to ensure financial discipline.

Account, the Auditor has also to ascertain how far the Society has achieved the objects for which it has been organized on a cooperative basis. Thus, the amount of Profit available for distribution is not the only result expected in the Audit of c Cooperative Society. How far the Society has succeeded in furthering the moral and material well being of its members is an important aspect of which the Audit is required to focus.

Besides the above, audit of cooperative societies has to take into consideration the adherence to provisions of the Cooperative Societies Act & Rules and other relevant Act as well as the Bye-laws of the society. The statutory provisions that govern the audit of cooperative societies appear as an Appendix to this manual.

## **DEFINITION OF AUDITING:**

By conducting auditing, it would be seen that an Auditor has not only to see the arithmetical accuracy of the books of accounts, but also to go further and find out whether the transactions entered therein are correct or not. In most of the cases the auditor is required to go beyond the books of accounts.

The following are some of the definitions given by some writers.

1. L. R. Dicksee; “An Audit is an examination of accounting records under taken with a view to establishing whether they correctly and completely reflect the transaction to which they relate”.
2. Spicer and Pegler; “ Such an examination of the books, accounts and vouchers of a business as will enable the auditor to satisfy himself that the balance sheet is properly drawn up, so as to give a true and fair view of the state of affairs of the business and whether the profit and loss accounts gives a true and fair view of the profit or loss for the financial period, according to the best of his information and the explanations given to him and as is shown by the books, and if not, in what respect he is not satisfied”.
3. The institute of Chartered Accountants of India has defined auditing as “a systematic and independent examination of data, statements, records, operations and performances (financial or otherwise) of an enterprise for a stated purpose. In any auditing situation the auditor perceives and recognizes the propositions before him for examination, collects evidence, evaluates the same and on this basis

formulates his judgment which is communicated through his audit report”.

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

A Cooperative society is formed under the provision of Cooperative Act 1912. This act is further amended by various State Governments. In Kerala the accounts of cooperative institutions are maintained as per the regulations of ‘The Kerala State Cooperative Act of 1969’. Audit of accounts of these cooperative institutions is compulsory. Cooperative Department of the state is the authority for conducting audit.

From the point of view of audit, cooperative societies are classified as A, B, C, D and E, according to the standard of efficiency of management. It is the auditor who after examining all the aspects awards the classification. The auditor has to submit the audit report to the Registrar.

Under Sec. 63, 64, of the Kerala Co-operative Societies Act 1969, the account of every society shall be audited at least once in a year by the Registrar or by a person authorized by the Registrar by general or special order. The Registrar shall audit or cause to be audited by a person authorized by him by general or special order in writing the accounts of every society at least once in a year. Audit shall include an examination of overdue debts if any, verification of cash balance and securities and valuation of assets and liabilities of the society.

The audit period in all cases be extended back to the last date of the previous audit and shall be carried out up to the last date of the cooperative year immediately preceding the audit.



The result of audit shall be communicated to the society within six months of the date of audit. Every society shall pay to the Govt. such fee for the audit of the accounts for each ear as may be fixed by the Registrar.

The auditor shall prepare and submit the audit memorandum in the prescribed form with reference to the accounts examined by him and the balance sheet and the final accounts for the period under audit. The audit memorandum shall contain schedule with full particulars of the following matter.

1. Transaction contrary to the provision of act, rules and byelaws.
2. Amount which ought to have been lent have not been brought to the account.
3. Material irregularity of any in the expenditure or in the recovery of money due to the society.
4. Bad or doubtful debts.
5. Audit classification statement in accordance with the instructions issued by the Registrar from time to time.
6. Any other matter specified by the Registrar.

Under Sec.64, the result of the audit along with the defects in the working of the society should be brought to the notice of the society with a direction to rectify the defects within the specified time.

## **CO-OPERATIVE AUDIT SERVES THE FOLLOWING PURPOSES:-**

- (1) The members of the Society are to be satisfied that the affairs of the society are managed properly and on sound business principles. This is possible by the Co-operative Auditor undertaking a detailed check of the voluminous transactions taking place during the entire year and making a report of his findings as a result of this check, to the members.
- (2) A large number of societies borrow funds from outside. The creditors would be keen to satisfy themselves of the financial soundness and credit worthiness of the society. For this purpose they would depend upon the Co-operative Auditor's report.
- (3) A large number of persons are employed by Co-operatives for managing their affairs. In order to ensure that there is proper check on efficiency and integrity of employees, the managements would require a systematic and thorough check of their accounts. This purpose is served by Co-operative Audit.
- (4) Non-members who deposit their funds with the Co-operative Banks would like to satisfy themselves that their funds are safe with the Bank, This is possible by the Co-operative Auditor's report.

## **SALIENT FEATURES OF CO-OPERATIVE AUDIT**

The audit of a Co-operative Society is different from that of a joint stock company because the objects of a Co-operative Society are quite different from those of a Joint Stock Company.

While the main object of a Joint Stock Company is to earn profit, the object of a Co- operative Society is to render service to its members. Service rather than profit is the motto of a Co-operative Society.

Opinions have been expressed from time to time on the nature, extent and scope of Co- operative Audit.

According to the Maclagan Committee, Co-operative Audit extends somewhat beyond the bare requirements of the Act and should embrace an enquiry into all the circumstances which determine the general position of the society. It is the duty of the Co-operative Auditor to notice any instance in which the Act, rules or byelaws have been infringed, to verify the cash balance and certify the correctness of the accounts, to ascertain that loans are made fairly for proper periods and objects and on adequate security to examine repayments in order to check book adjustments and improper extensions and generally to see that the society is working on sound lines and that the committee, the officers and the ordinary members understand their duties and responsibilities.

According to the Mirdha Committee, Co-operative Audit should include scrutiny of the extent of benefit accruing to the weaker sections of the society's members.

Thus a Co-operative Auditor should not confine his enquiry to the books of accounts but should go beyond the books and make enquiries into the working and general functioning of the society. His enquiry according to the Maclagan Committee should embrace all circumstances which determine the general position of the society and should aim at seeing that the society is working on sound lines. The audit of Co-operative Society has to be

conducted specially in the background of Co-operative Principles and guidance is to be given by the Co-operative Auditor for improvement of the Co-operative Institution in the light of this background.

The Co-operative Audit is thus not merely a financial audit. It involves Administrative Audit also

## **MAIN FEATURES OF CO-OPERATIVE AUDIT**

The main features of Co-operative Audit relate to the following:-

- 1) Adherence to Co-operative Principles
- 2) Observance of provisions of Act, Rules and bye-laws.
- 3) Valuation of assets and Liabilities and Verification of Cash Balance and Securities.
- 4) Verification of balances of Depositors and Creditors.
- 5) Examination of overdue debts and classification of bad debts.
- 6) Personal verification of members and examination of their pass books.
- 7) Discussion of draft audit report with Managing Committee.
- 8) Audit classification of society; and
- 9) Examination of the working and other prescribed particulars of the society.

Apart from the general processes of auditing like posting, vouching, verification of assets and liabilities etc., the special features of Co-operative Audit are briefly mentioned below.

### **(1) Examination of overdue debts**

Overdue debts affect the working of a society seriously. They affect the Working Capital position of the society. As such it is necessary to make a detailed analysis of the overdue debts with a view to ascertaining the chances of their recovery and classifying them as good or bad. It is also necessary to compare the percentage of overdue debts to working capital and loans and advances with that of last year and ascertain whether the trend is decreasing or increasing, whether adequate action is being taken for recovery, and whether necessary provision is being made for doubtful debts. Detailed instructions have been issued in this regard in the Audit Instructions

### **(2) Adherence to Co-operative Principles**

It has to be ascertained in general whether and if so, to what extent the objects for which the society was set up have been fulfilled. The assessment need not be only in terms of profit made. It could also be in terms of benefits given to members. The benefits could be in terms of sales effected at lower prices to members, economy achieved in operations, avoidance of wastage of funds, avoidance of middlemen in purchases etc.,

### **(3) Observance of the provision of the Act and Rules**

Infringement of the provisions of the KCS Act and Rules and the bye-laws of the society, if any, should be pointed out in audit. Financial implications of the infringement should

also be assessed and indicated.

#### **(4) Personal verification of member's loan and examination of their pass Books**

This is necessary in Co-operative Societies in order to ensure that books of accounts are free from manipulation, since in many Rural and Agricultural Societies a considerable number of members could be illiterate and as such personal verification provides a safeguard against any manipulation. Personal verification will however be on the basis of a test check. Detailed instructions have been issued in this regard in the Audit Instructions

#### **(5) Audit classification of Society**

Audit classification made by the Auditor indicates the overall performance of the society. Detailed instructions have been issued in this regard in the Audit Instructions.

#### **(6) Discussion of the Draft Audit Report with Managing Committee**

The draft audit report should be discussed by the Auditor with the management before finalizing the Audit Report. If the management desires detailed instructions have been issued in this regard in the Audit Instructions.

### **OBJECTS OF CO-OPERATIVE AUDIT**

1. Verification of the accuracy of the books of accounts and ascertaining correctness of accounts.
2. Detection of clerical errors and errors of principles and prevention of such errors.
3. Detection and prevention of frauds.

4. Examination of the affairs of the society in order to ascertain whether they have been carried on in accordance with the provisions of the Co-operative Law and the Principles of Co-operation and on sound business principles.

5. (a) Assessment of the extent to which the conditions of the members, particularly their economic conditions, have improved by the operations of the society. (b) Certification of actual profit realized or loss incurred.

(b) Certification of actual profit realized or loss incurred.

There are two main aspects: firstly, Co-operative Audit is an audit conducted under the statute and therefore, it is statutory in character and, secondly, it is undertaken by Government and it is therefore, state controlled audit.

1. State, today, is a major partner in a majority of Co-operative undertakings and the state has acknowledged the agency of Co-operatives as an instrument of economic growth. The State

as such, takes active part in the administration and management of Co-operatives. It is therefore vitally interested in getting the accounts of Co-operative Society audited regularly. The success of Co-operative movement depends on proper management of Societies. There are chances of the funds of the societies being mismanaged if the relevant transactions are not properly and promptly checked and prompt follow-up action taken on the findings of Audit. Control exercised through audit thus serves a very valuable purpose and enables effective weeding out of the unscrupulous and undesirable elements from the Co-operative movement.

The audit of Co-operative Societies which is compulsory under the Act has been entrusted to the Director of Co-operative Audit. This statutory requirement ensures proper management of Co-operatives which are public organizations.

2. State, today, is a major partner in a majority of Co-operative undertakings and the state has acknowledged the agency of Co-operatives as an instrument of economic growth. The State as such, takes active part in the administration and management of Co-operatives. It is therefore vitally interested in getting the accounts of Co-operative Society audited regularly. The success of Co-operative movement depends on proper management of Societies. There are chances of the funds of the societies being mismanaged if the relevant transactions are not properly and promptly checked and prompt follow-up action taken on the findings of Audit. Control exercised through audit thus serves a very valuable purpose and enables effective weeding out of the unscrupulous and undesirable elements from the Co-operative movement.

The audit of Co-operative Societies which is compulsory under the Act has been entrusted to the Director of Co-operative Audit. This statutory requirement ensures proper management of Co-operatives which are public organizations.

#### **ADVANTAGES OF AUDIT :-**

1. Apart from the detection of errors fraud, a regular audit would help to keep the books of accounts of a business concern up-to-date.
2. The fact that audit is being done at regular intervals will act as a moral check and prevent fraud and errors



to a certain extent.

3. It also helps to provide an independent opinion to the members' general body about the management of their committee and the institution.
4. Audited accounts are usually relied up on for the purpose of assessing the income tax and sales tax and also for disbursement of Government assistance.
5. An efficient audit is a safe guard to the creditors whose investments enable the institutions to conduct its business.
6. The audit helps to ascertain the correct and true state of affairs of the business, which consequently enables the institution to secure necessary finance on the certificate of the audited balance sheet.

### **DUTIES RESPONSIBILITIES AND POWERS OF CO-OPERATIVE AUDITOR**

*The main duties and responsibilities are the following:*

The Audit of accounts of a society shall include:-

1. Examination of overdue debts, if any: The examination of overdue debts has a special importance in case of Credit Cooperatives. Unless the overdue debts are examined thoroughly, no estimate of bad and doubtful debts is possible. So the auditor must pay special attention to the examination of all overdue debts.
2. Verification of the cash balance & securities:
3. Valuation of the assets and liabilities of the society: The valuation and verification of assets and liabilities

are the important duties of an auditor because unless the assets and liabilities are determined correctly the real exchangeable value of assets of a cooperative society cannot be determined

4. Examination of all transactions of the society: The Cooperative Auditors has special responsibility to assess the losses, if any sustained by a society due to negligence misconduct on the part of the office bearers or an officer or member of a society whose action is detrimental to the interest of the society.
5. Examination of the statement of accounts prepared by the committee.: An Auditor may go through beyond books and accounts and records, as he has to supplement information by calling for explanations and clarifications.
6. The Auditor has also to see and comment whether prompt action is taken for recovery of current and overdue loans and that no unauthorized renewal, etc. has taken place.
7. On certification of the accounts of a society the Auditors has to submit an audit memorandum to the Registrar.
8. The Audit shall in all cases extend back to the last date covered previous audit and shall be carried out up to the last date of the cooperative year immediately preceding the audit or such other date as may be directed by the Registrar.

Thus, in addition to conducting audit according to the generally accepted principles, the Auditor has to attend to the above matters.

## **POWERS OF AN AUDITOR**

To discharges his duties an Auditor of a Cooperative Society has been vested with powers under the Act and Rules. These are as under:-

1. He has the power to audit any cooperative institution allotted to him by general or special order in writing made by the Registrar.
2. He has powers for examination of over dues, debts, if any, the verifications of the cash balance and the securities, valuation of the assets and liabilities of the society, examination of all transactions of the Society. The statement of accounts prepared by the committee and other particulars
3. He shall have free access to all the books and accounts, cash and other properties belonging to or in the custody of the society and may summon any person in possession or responsible for custody of such books and accounts, documents, papers of securities, cash or other properties to produce the same at any place at the Head Quarters of the Society or any there under .
4. Every Officer or employee and every member and past members of the society shall have to furnish such information in regard to transactions and working of the society as the auditor may require
5. The Auditors shall have the right to received all notices and every communication relating to 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.

6. The Auditor, if specifically authorized by the Registrar of Co-op. Societies, shall have power to summon and enforce attendance of any person to give evidence and examine him on oath or affirmation or by affidavit or to compel the production of any document or other material object, by the same means and in the same manner as is provided in the case of a civil court under the code of civil procedure, 1908.
7. Any officer or member of a society who fails to furnish information/documents as per provision of this act is punishable.
8. Any Officer, member, agent or servant of a society who fails to comply with the requirements of this act is an offender under and punishable.
9. Auditors appointed under this Act is public servant within the meaning of Indian Penal Code 1860 as per provision of this Act.

## **LIABILITIES OF AN AUDITOR**

An Auditor is expected to take due care and skill in performing his duties on the strength of books of accounts, papers and information as required by Act. Rules & Bye-laws. After careful examination an Auditor should certify the profit & loss accounts and balance sheet produced by the management of Cooperative Institution or others. An Auditor should ascertain the actual financial position of business apart from certifying the arithmetical accuracy of accounts & balance sheet.

The Auditor can be held liable for negligence in the following matters:-

- a) Omission to count the cash in hand and verify the Govt. and other Securities by physical verification.
- b) Failure to verify and evaluate the assets shown in the balance sheet after making due enquiries.
- c) Failure to detect the frauds which have actually taken place during the period of audit.

## **RESPONSIBILITY FOR WORK DONE BY JUNIORS**

An Auditor cannot escape personal liability on the plea that the work was done by his assistant or other official subordinate to him. The Auditor shall be held equally responsible for any failure of negligence on the part of his assistant or other subordinate staff associated with the audit work.

## **PLANNING THE AUDIT**

An audit is generally conducted with some definite objects in view. This object should be constantly kept in mind in the initial stages of the audit. The Auditor may take the following steps to begin his work.

1. Satisfy himself that his appointment is in order, date by which the work has to be completed and whether the society has been informed of his appointment.
2. Chalk out an audit programme and give prior intimation to the society for keeping all records and books of accounts in readiness.
3. Examine the system of accounting followed in the society.

4. Obtain list of all the books maintained by the society, the names of the keepers of such books and their specimen signatures.
5. Enquire, if any, internal check system is in operation and its nature.
6. Obtain a list of Officers of the society and enquire about their duties and powers.
7. To ensure that the Account Books have been written up completely before taking up audit.
8. To consult the Auditor's report, audited Profit & Loss Account and balance Sheet of the previous year, and see that the books for the current year have been opened according to the balance sheet of the previous year.
9. Carefully peruse the registered Bye-laws & Rules of the society.

## **AUDIT NOTE BOOK**

An audit note book is a written record of queries made, replies furnished there against, correspondence entered into, observations made at the time of checking etc. Some of the salient points required to be noted down in an Audit Note Book are indicated below:-

1. List of books of account maintained.
2. Names & designation of the members of the Committee and the Officials.
3. Points requiring further explanations and clarifications.

4. Particulars of missing vouchers, the duplicates of which have to be obtained.
5. Errors and frauds, if any discovered.
6. Totals or balances of books account, Bank reconciliation statement.
7. Dates of commencement and completion of audit.
8. Provisions in the Rules & Bye-law of the society effecting the accounts and audit.
9. Points which have to be incorporated in the audit report etc.

## **AUDIT PROGRAMS**

Audit program are lists of audit procedures to be performed by audit staff in order to obtain sufficient appropriate evidence. The individual procedures are determined after obtaining an understanding of the accounting system and determining the audit strategy to be followed.

The audit program reflects the understanding of the system and will incorporate a mix of compliance (test of control) and substantive tests that the auditor intend to perform. The audit program is an important part of the auditors working papers and records a significant part of the audit evidence required to justify the audit opinion.

An audit programme is detailed plan of the auditing work to be performed, specifying the item in the financial statements and allocating tentative time required. It provides a guide in arranging and distributing the work and in checking against the possibility of omissions.

While preparing the audit programme the Auditors should bear in mind two sets of points viz. the points which are common to all audit and the special points relating to the particular audit. A copy of the audit programme thus prepared may be submitted to the controlling Officer of the Auditor who shall be in a position to know about the progress of the work. In general, the audit programme should contain the following points:-

- i) Examining regulations of the society (Bye-laws etc.) as they may have bearing on the system of accounts followed.
- ii) Vouching cash received by way of share capital with reference to the Register of members and copies of the receipts issued to them. Check subscriptions of nonmembers, if any.
- iii) Vouching receipts from deposits, if any.
- iv) Vouching grants from the Government, if any, with reference to the letter authorizing such grants.
- v) Checking the loans borrowed from Banks.
- vi) Vouching payments thoroughly.
- vii) Vouching the receipts from interest on loans granted.
- viii) Scrutinising of cashbook and verification of the cash in hand.
- ix) Verification of the investments.
- x) Verification the stock thoroughly.
- xi) Ensuring that Reserve Fund has been created as per



### Rules.

- xii) Examining the payment of dividends to members.
- xiii) Certifying the accounts viz. Profit & Loss Accounts, Balance Sheet. xiv) Drafting a report.

## **WORKING PAPERS**

Working papers are those papers which contain essential facts about the accounts so that the auditors may not have again to go over the accounts. These form a part of the audit report. This shall contain:-

- i) Audit programme duly completed, showing the nature of work, the extent of checking and the initials of the person undertaking the work.
- ii) Working trial balance.
- iii) Schedules of the debtors and creditors, fixed assets, investments etc.
- iv) Correspondence made by the Auditor, if any.
- v) Abstracts from minute books.
- vi) Particulars of investments.
- vii) Particulars of depreciation, stock.
- viii) Details of queries made during the audit and the replies furnished.
- ix) Particulars of overdue debts and action taken for their recovery etc.

The Audit Programme (duly filled in and signed)

together with the audit notes, queries, draft accounts checked by the Auditor. Statements and schedules and other working papers should be filed in the Audit file of the society along with the certified profit & loss accounts, balance sheet and the statutory audit report.

## **PURPOSE OF AUDIT PROGRAMS**

1. A set of instructions to the audit team
2. Assist with planning and performance of the audit.
3. A means to control and record the proper execution of the audit work and also to review the audit work.
4. A record of the audit procedures to be adopted, the audit objectives, timing, sample size and basis of selection of each criteria.
5. Audit evidence to support the auditor opinion.

## **TYPES OF AUDIT PROGRAMS**

### **1. Standardized audit programs.**

It is a pre-prepared listing of objectives and tests which may be used in any audit. A consistent approach to all audits reduces risks that procedures are omitted.

### **2. Tailored audit programs**

Some audit programs need to be tailored to the specific circumstances of an engagement as all clients are different. The design of the audit procedures to be followed should match exactly to the actual system of the entity. Reference can be made specifically to particular procedures/documents.

## **ISA 230 AUDIT DOCUMENTATION**

The auditor should document matters which are important in providing evidence to support the audit opinion and evidence that the audit was carried out in accordance with ISA.

### **WORKING PAPERS**

Working Papers are the material that auditors prepare or obtain and retain in connection with the performance of the audit. It may be in the form of data stored on paper, film, electronic media, or other media. They can also be used in court e.g. in case of negligent audit.

### **TYPES OF WORKING PAPERS**

Working papers are usually filed in 2 separate files:

#### **PERMANENT AUDIT FILE (used more than one financial year and file is built only one)**

It comprises matters of continuing importance affecting the audit such as:

1. Copy of Articles of Association.
2. Copy of Memorandum of Association
3. Information concerning the legal and organizational structure of the entity.
4. Extracts or copies of important legal documents, agreements and minutes.
5. Accounting & Internal Control Systems.
6. Letter of Engagement

7. Bankers
8. Legal adviser

### **CURRENT AUDIT FILE (Pertain to a particular financial year)**

It relates specifically to the audit of a particular set of accounts:

1. Evidence of the planning process.
2. Evidence of the auditor's understanding of the accounting and internal control systems.
3. Analyses of transactions and balances.
4. A record of the nature, timing and extent of audit procedures performed and the results of such procedures.
5. An indication as to who performed by assistants was supervised and reviewed.
6. Details of procedures applied regarding components whose financial statements are audited by another auditor.
7. Letters of representation received from the entity.

### **PURPOSE OF WORKING PAPERS**

1. Assist in the planning and performance of the audit.
2. Assist in the supervision and review of audit work.

Record the audit evidence resulting from the audit work performed to support the auditors opinion.

## IMPORTANCE OF WORKING PAPERS.

Quality control purposes in respect of the audit.

**Assurance:** that the work delegated by the audit partner has been properly completed.

**Evidence:** that effective audit has been carried out.

**3Es:** increase the economy, efficiency, and effectiveness of the audit.

**Support auditor conclusion:** contain sufficiently detailed and up to date facts which justify the reasonableness of the auditor's conclusions.

**Future audits:** retain a record of matters of continuing significance to future audits.

## REVIEW OF WORKING PAPERS

- **Hot review:** WP prepared by an audit staff is reviewed by a more experienced staff during the course of the audit.
- **Post audit review:** the audit manager and partner review the audit file and the FS.
- **Second partner review:** applicable for large and complex audit.

**Cold review:** a group of experienced staff form a team to review in detail the work performed by an audit team and ensuring that the audit has been conducted in accordance with the firm standard procedures.

## **Confidentiality of working papers**

1. Should not be made available to third parties without client consent.
2. Appropriate procedures should be undertaken to maintain confidentiality and safe custody of working papers.
3. Should be retained for a sufficient period of time to meet regulatory requirements.

## **CONTENT**

Each audit working paper must be headed with the following information:

1. The name of the client.
2. The period covered by the audit.
3. The subject matter.
4. The file reference.
5. The initials (signature) of the member of staff who prepared the working paper, and the date on which it was prepared.
6. In the case of audit papers prepared by client staff, the date the working papers were received, and the initials of the audit team member who carried out the audit work.
7. The initials of the member of staff who reviewed the working papers and the date which the review was carried out.

## **SOME CHARACTERISTICS OF A GOOD WORKING PAPER**

1. State a clear audit objective.
2. State the name of client, subject matter, year/period end.
3. State the full extent of the test or audit objective.
4. Reference of linked documents.
5. How sample size were determined.
6. Clearly and objectively state the results of the test.
7. The conclusions reached should be consistent with result of the test.
8. Main reference.
9. Signed and dated by preparer.
10. Signed and date by reviewer.
11. Standards review by reviewed.

## **CONCLUSION**

Working papers provide evidence that an effective, efficient, and economic audit has been carried out. They should therefore be prepared with care and skill. They should be sufficiently detailed and complete so that an auditor with no previous experience of that audit can understand the working papers in terms of the work completed, the conclusions reached and the reasoning behind these conclusions.

## **VOUCHING**

### **ROUTINE CHECKING AND VOUCHING**

Audit work can be roughly divided into the following jobs:

- i) A close and complete study of the system of internal checks followed by the society;
- ii) Routine checking of all transactions;
- iii) Review or higher audit i.e. the checking of the profit & loss account, Balance sheet, verification and valuation of assets & liabilities etc. In this chapter concept of internal checking, and vouching is discussed.

### **INTERNAL CHECK & CONTROL**

The whole system of accounting needs to be organized in such a manner that it may ensure some sort of check without incurring additional financial burden. To meet this end, the method of internal check has been devised. It is an arrangement of the duties of members of staff in such a manner that the work performed by one person is automatically and independently checked by another. This reduces the possibilities of frauds, errors or irregularities to the minimum.

Auditors are not likely to come across a satisfactory system of internal check & control in the Coop. Societies of the State. They are advised to urge upon the management of such societies to introduce these controls. Apex level Societies must have an internal check system. While drafting their Final Report Auditors should comment on the



internal check system followed by these Societies.

In a well-organized business concern, the internal check should be enforced specially for cash receipts and payments, cash sales, purchases etc. Certain general rules may be laid down for the same. These should be adopted with suitable modifications depending on the requirements and manpower of a society. These are given below.

### **A. CASH TRANSACTIONS**

- i) Cashier should not be allowed to records entries in the Ledger.
- ii) All payments in excess of limit specified in bye-laws/decided by Boards shall be made by cheques, which should preferably be crossed.
- iii) All receipts in cash or cheques etc. should be banked intact, daily after being entered into the Cash Book.
- iv) Bank reconciliation statement should be prepared every month, and compared with the Cash Book by an authorized authority other than the Cashier.
- v) Receipts through cash sales should be checked and their records periodically examined by a responsible officer.
- vi) Receipts book should be of a special form and receipts must be issued for all remittances.
- vii) All petty cash transaction should be handled by some-one, other than the cashier viz. petty cashier.
- viii) Vouchers obtained for all payments and filing No. of each voucher should be recorded in the Cash Book.

- ix) Periodically Cash Balance should be checked and compared with the Cash Book. A limit should be fixed on the Cash Balance to be kept with the Cashier by the Management.

## **SALES.**

- i) In case of a large retail store, a Cash Register should be maintained.
- ii) Salesmen should be provided with sales Memo. Book with three sets of receipts consecutively numbered. Cashier should receive payment on sales made, on production of the receipted copy by the customer.
- iii) The daily cash sales should be entered in the cash book only after comparing the cashier's receipts statement and the report of the salesmen.

## **PURCHASES**

- i) All sanction to purchase shall preferably be made by only one responsible officer.
- ii) An order Book in printed & numbered forms should be maintained for effecting purchases. All orders for purchases should be made in Book.
- iii) Goods Inward Register should be maintained for all goods received. No invoice should be passed for payments unless countersigned by the storekeeper or such other person responsible for receiving the goods. Above list is not exhaustive and should be accepted only as a general guideline to a system of internal check. The importance of an effective internal check system cannot be over emphasized. Besides, improving

the accounting discipline of a concern greatly reduces the work of the Auditor.

## **ROUTINE CHECKING**

Routine checking means checking the arithmetical accuracy of books of original entry and Ledgers with a view to detect clerical error and fraud of a very simple nature. In general, it includes the checking of the following:-

- i) Casts, Sub casts, carry forwards, extensions and other calculations in the books of original entry.
- ii) Postings into the ledgers.
- iii) Ledger accounts- to see their casts, balancing, carrying down of the balance and their transfer on to the Trial Balance.

The extent to which the Auditor should take up routine checking depends upon the volume of business and internal checks, if any. It shall be the duty of the concerned Auditor to check up the whole of the castings and postings. In large concerns, Auditor may carry on Test checks at his own discretion after a careful study of the situation. As a general guideline, the following percentage of checking of different transactions is prescribed. It should, however, be noted that the percentage suggested are in respect of normal Audits only, but where frauds and serious irregularities are noticed, a more exhaustive checking (cent percent, if necessary) should be carried out.

## **PERCENTAGE OF CHECKING**

Vouchers may be checked on the following basis.

1. Govt. sanctions 100%

2. Loan disbursements 100%
3. Bank reconciliation statement. 60% if done regularly per month 100% if pending for long time.
4. Stock in trade. 60% if proper inventories, records maintained. 100% otherwise.
5. Salary etc. 40% for permanent employees. 100% in respect of wages earners contingent staff etc.
6. Bills receivable/Payable 100%.
7. Advance receivable/Payable 100%.
8. Purchase of assets 100%.
9. Other vouchers, documents etc. may be checked at random, depending on the internal check system and at the discretion of the Auditor.

## **VOUCHING**

A voucher is documentary evidence in support of a transaction in the Books of account. The act of establishing the accuracy and authenticity of entries in the account books is called vouching. To substantiate an entry in the books, the auditor has to examine the supporting documentary evidence such as, vouchers, receipts, invoices, minutes, contracts, correspondence etc.

Vouching has the following main objects:-

- i. Collection of vouchers and related evidence and their evaluation.
- ii. Evaluation of the vouchers as evidence with regard to

the correctness and authenticity of the transaction.

- iii. Finding out whether entries have been properly made in the books of account or not.
- iv. Finding out if there is any omission in any record.
- v. It forms the basis for final conclusion to be drawn by the Auditor.

Special attention should be made on the following aspects while examining vouchers.

- a. It is in the name of the client and its date relates to the period of audit.
- b. Amount entered is the correct one.
- c. Its particulars correspond to those of the records of transaction entered in the books.
- d. It is properly stamped (if necessary) and is passed for payment by a responsible officer.
- e. All vouchers are properly filled and consecutively numbered.
- f. All vouchers relating to particular book are produced at once and the same time.

The Auditor should cancel each voucher that he examines and prepare list of missing vouchers, if any.

### **VOUCHING, CASH AND TRADING TRANSACTION:**

The main objects of the audit of the cash book may be summarised thus:-

1. To ensure that all receipts are accounted for;
2. To ensure that no fraudulent payment have been made;
3. To ensure that all receipts and payments have been proper recorded;
4. To verify the cash in hand and in bank.

### **VOUCHING DEBIT SIDE OF CASH BOOK**

Vouching receipts is always more difficult than vouching payments, since, in many cases no direct evidence as regards regularity and correctness of the amount received, would be available. The system of internal check as regards receipts should be carefully enquired into. The entries in the cash book should be compared with the office copy of the receipt issued to the party and it should be seen that the following particulars tally:

1. Date of receipts;
2. Name of the person paying in the amount and name of the person on whose behalf remittance is made;
3. Amount received mentioned in both in words and figures;
4. Mode of remittance i.e. by check, cash etc.
5. Head to which credited.

***Different types of receipts of a society are to be checked & verified as under:***

1. Share and entrance fees: Printed receipts and

- counterfoils of certificates to be checked with entries in the Share Register, Share ledger, Member's register. If entrance fees and share money are collected prior to actual admission of a member, the amount thus collected should be credited to a suspense account first and subsequently adjusted to the share and entrance fee account.
2. Receipt of Government Share capital, loan, subsidy: Copy of order sanction loan or subsidy is to be inspected in order to verify whether the terms and conditions of the loan/subsidy have been complied with. The amount should have been properly utilized for the purpose for which it was sanctioned. Auditor may point out non-compliance of any of the conditions in his report.
  3. Deposits: For fixed and call deposits, counterfoils of the receipts issued should be compared with the entries in the cashbook and deposit register.
  4. Receipts of loans: Bank loans are to be checked with the advice of the bank and entry in the passbook crediting the proceeds of the loan. For repayment of loans by members counterfoils/copies of receipts issued should be checked with cashbook. Individual passbooks of borrowers may also be checked at random with the respective ledger account.
  5. Capital receipts: Receipts through sale of fixed assets are to be verified with resolution of Board/Committee authorizing the sale. The amount received should also be reasonable. Auditor may also check that no officer of the society had any direct or indirect interest in any property sold or purchased by the Society.

6. Cash sales: Cash Memos should be checked and verified with entries in daily sales register.
7. Interest received: Interest received on amounts deposited with bank should be checked with entries in the passbook. Interest on fixed deposits with banks or other investments are to be verified by checking the calculations on the amount of deposit (rate recorded on deposit receipts) or the nominal value of securities. In case of dividend on shares, the counterfoils of the dividend warrants will have to be checked. If the number of investments is large, a separate Investment register/Ledger should be maintained. Interest received on loans and advances to members will be checked from the counterfoils of receipts issued. Interest calculations should be checked while checking the postings in the loan ledger.
8. Rent: Agreement executed by tenants should be seen. It should be ensure that all money received on account of rent has been duly accounted for. Enquiries should be made about arrear of rent and action taken for recovery, and if action taken appears to be inadequate, then to suggest step to be taken to gear up recovery.
9. Miscellaneous Receipts: Occasional receipts such as sale proceeds of fixed assets, scraps, unused stores and spare parts, discarded materials, waste papers etc. should be vouched from the receipts issued, correspondence, minutes and relevant documents.

### **VOUCHING CREDIT SIDE OF CASH BOOK**

To vouch the cash payments, the Auditor should primarily satisfy himself that the payments have been actually made:-



- to the right person or parties;
- for the society/business itself;
- have been sanctioned by competent authority;
- have been properly recorded in the books of accounts.

The following points are required to be borne in mind while vouching the payment side of the cashbook:-

- i) The voucher should have been addressed to the society itself and not in the individual name of the Managing Director, Chairman, Secretary or other officer. The nature of the transaction to which it relates should be one, which the society can be normally expected to carry on. For example, a society engaged in supplying seeds and matures is not expected to buy jewellery or cloth.
- ii) Where it is known that official receipts i.e. printed receipts bearing the name of the payee are generally issued for acknowledging remittances, no other receipts or acknowledgement should be accepted as sufficient evidence of payment made.
- iii) All vouchers should have been properly authenticated by the authorized officers of the society. This may be done by them by signing the original vouchers. This will ensure genuineness of the vouchers produced for audit.
- iv) Where actual payment has been made to a person other than the payee himself, a letter of authority from the payee authorizing the person to received payment on his behalf has been obtained.

- v) When payment has been made to a person in his official capacity, it should be seen that the rubber stamp of the institution showing the designation of the officer is duly affixed below the signature of the officer.
- vi) If the signature of the payee is not in English or in a language not known to the Auditor, it should have been translated into English or language known to the Auditor. All thumb impressions should have been properly described and attested.
- vii) Where the amount paid is in excess of Rs. 500/-, the voucher should be duly stamped.
- viii) The vouchers should be properly checked as regards the arithmetical accuracy of the amount and the propriety of the payment by the Chief Accountant or other responsible officer of the society.
- ix) All vouchers should be cancelled by the Auditor as soon as he checks them and passes the entries in his audit in order to prevent their production once again in support of a subsequent fraudulent or fictitious payment. Either a rubber stamp bearing his name should be used for the purpose or the voucher should be initialed by the Auditor in a prominent place, preferably in the middle.

### **SANCTION FOR PAYMENT:**

It is necessary that all payments should have been regularly sanctioned by the Committee or an officer properly authorized to do so, such as Secretary, Manager, Managing Director, etc. Where the Secretary, Manager or other officer has been authorized to sanction payments, it should be seen that the extent of his authority has been fixed and that he has not exceeded his authority.

In order to be satisfied that all payments have been properly sanctioned, orders of the Chairman, Managing Director, Manager or other responsible Officer, competent to sanction payments should be seen. Where the Managing Director, Manager or Secretary is authorized to sanction payments or incur expenditure, it should be seen that these Officers do not exceed their authority. Resolution of the Managing Committee, Board of Directors or the General body will have to be seen in case of payments which are beyond the powers of the Chairman, Managing Director or other Officers. All extraordinary expenses or expenses, which are not incidental to the business of the concern or connected with any of its activities, should be sanctioned by the general body. Even in such cases, their legality and propriety will have to be further examined. Similarly, all purchases of immovable property and investment of funds outside the business of the society, which the Board/Committee is not competent to sanction, should have been sanctioned by the general body.

Where the secretary, Managing Director, or the Manager is authorized to incur the expenditure or disburse amount upto a specified limit, all expenditure incurred by him and all disbursement made by him should be placed before the committee or board periodically and his approval should be obtained.

### **PAYMENT OF ADVANCES:**

There is no objection for payments of advances provided the purpose is genuine, and payments of advances are necessary in the normal course of business of the society. The reasons for the payment of advances or the purpose, for which the advance is being paid, should be specifically mentioned in the body of the voucher and the advances

should be adjusted within a reasonable time. Where advances are made against supplies to be received or services to be rendered or against running bills, these should be adjusted in the invoices or final bills. However, where advances have been given for no specific purpose or consideration, they should be objected to and where such advances are subsequently credited back in cash after some time, it should be noted that this would amount to misapplication of funds of the society. All such misuse of the funds of the society by its office-bearers by taking unauthorized advances themselves or giving advances to other persons, should be pointed out by the Auditors.

A list of all outstanding advances on the date of audit should be obtained and it should be seen that only temporary advances recently granted for specific purposes are outstanding. Where advances have been outstanding for more than 60(sixty) days, the reasons for not recovering the advances or adjusting them should be ascertained.

While examining documentary evidence in support of a transaction, particulars entered in the cashbook and those mentioned in the body of the voucher or order document should correspond in respect of the following:-

- Date of payment;
- Name of the payee;
- Name of the person receiving payment on behalf of the payee, in case the payment is made to a person other than the payee against his letter of authority;
- Supporting documents like invoices, statements of accounts, cash memos, bill for expenses, service charges etc. should be attached to the voucher or reference to such documents made therein;

- Amount paid should be mentioned both in figures and words;
- Head of the account to which debited- If the amount paid has been debited under different heads of account, an analysis should be prepared. This should be checked by the auditor and the total agreed;
- Mode of payment- Whether the payment has been made in cash or by cheque or whether the amount has been remitted to the payee by bank draft, postal order, money order or insured post or the payee's account with the society has been credited and a credit note issued in his favour.

### **UNUSUAL AND IRREGULAR ITEMS-**

While checking vouchers, careful notes should be taken of all unusual items or items requiring further clarification or explanation and also items which call for addition information or authority or where further evidence, such as inspection of the minutes, contracts, lease-deeds agreements, orders, etc. is necessary. Notes should also be taken of all payments, which require to be apportioned or adjusted. A list of all missing vouchers should be drawn up and explanation as to the circumstances of their loss or non-availability of reasons for failure to obtain regular vouchers at the time of making payments should be ascertained. All subsidiary evidence in support of the payment, such as entry in the statement of accounts confirmed by the party, reference in correspondence etc. should be seen with a view to be satisfied about its genuineness and correctness. In a number of cases, it will be noticed that only the debit slips have been kept on record without the payment having been actually acknowledge by the payee. Sometimes, it might be

explained that the amounts have been merely adjusted or credited to the payee's account and, hence, no regular voucher was necessary. The Auditor should carefully examine all such contra entries and insist that in all cases, payee's acknowledgements should be obtained.

## **PAYMENT OF DIVIDEND AND BONUS**

The discharged dividend or bonus payable should be checked with the entries in the dividend or bonus paid register. If dividend or bonus warrants are not issued, separate vouchers specifying the number of shares held, the rate and amount of dividend or bonus should have been obtained. As regards payment of bonus or rebate on purchases from or sales made through the society, a register showing particulars of purchases made from the society or sales made through it by members and rate at which bonus or rebate is paid and the total amount of rebate or bonus should be maintained. If acquittances of the shareholders or constituents are obtained on the dividend/bonus paid register itself, the individual items will have to be called over in the cashbook.

## **REPAYMENT OF BANK LOAN, CASH CREDIT AND OVERDRAFT**

Repayment of bank loan would be checked with the counterfoils of paying-in-slips receipts issued by the bank, which would also show separately the amount, credited to principal and interest account. Entries in the bank passbook should also be seen. Advices received from the bank in cases where amounts are paid directly for credit to the account of the society and entries in the passbook should be seen.

Some cash credit and overdraft accounts are operated by cheques. Repayment of cash credit, overdraft and other

advances obtained from bank would be checked with the counterfoils of the paying-in-slips issued by the bank and entries in the passbook or the statement of accounts.

## **STATIONERY AND PRINTING CHARGES**

Where large quantities of stationery articles are to be purchased or printing work on a substantial scale is to be got executed, it should be seen that before making purchases of stationery or placing orders for printing, the normal canons of financial propriety, such as calling for tenders, inviting quotations and acceptance of the lowest tender or quotation are being duly observed or these are purchased from other Coop. Societies trading in these goods. If lowest tenders are not accepted reasons for the same need be recorded. It should be seen that large advances are not given to the printers before any printing work is executed. Payments should be made only against completed jobs and delivery of printing material. For payment of printing charges for printing forms, letter heads, registers, notes, reports etc. bills received from the printing press specifying the printing work executed, quantities, rates, dates of delivery etc. should be seen. Proper accounts of receipts and issued of all forms, letter pads, books, ledgers, registers, and other printed material should have been maintained. It is necessary to maintain an inward register for receipt of printing and stationery. The stock register may be posted from the inward register. Issues and consumption of stationery articles should have been properly controlled. Quantity accounts of stationery articles and printed materials should have been maintained and checked by a responsible officer at frequent intervals.

## **EXPENSES WHICH SHOULD BE OBJECTED TO IN AUDIT**

The following expenditure, though duly sanctioned by the committee or other authority should be objected to by the Auditor:-

- Expenses, which are not incidental to the business conducted by the society and expenditure, incurred which cannot be said to be for the purpose of the society, e.g. personal expenses of the Directors, Officers or employees.
- Expenses, which were not necessary and should in ordinary course, have been avoided.
- Expenses, which are considered heavy or disproportionate, considering the size of the institution and importance of the occasion.
- Abnormal expenditure over publicity, propaganda and advertisement.
- Infructuous expenses, i.e. expenses which would yield no results.
- Fraudulent, false or fictitious expenses.
- Other irregular or improper expenses such as illegal commission or allowance, black money etc.

Detailed notes of all expenses objected to should be taken. These should be discussed with the management and suggestions made to recover the amount involved from the persons responsible. If no action is taken, specific mention thereof should be made in the audit report. A list of all expenses, which have been objected to and which in



the opinion of the Auditor should not have been paid from out of the funds of the society, should be contained in the schedules to be attached to the audit memo.

## **VOUCHING TRADING TRANSACTIONS**

### **Purchase procedures:**

The system of internal control relating to purchases should be very carefully evaluated. Proper buying procedures require that there is a clear-cut definition of functions and authority between; (a) requisition of supplies (b) placing of orders, (c) inspection and recording of goods when received, (d) checking and recording of invoices and (e) payments to suppliers and other creditors. Only the storekeeper or other specified Officer should be authorized to issue requisitions. The buying section should then take steps to invite tenders or quotations. A comparative table of quotations received should be prepared and normally the lowest quotation should be approved. When lowest quotations or tenders are not accepted, reasons for the same should be recorded. Where on account of small value of the purchase to be made, non-availability of the goods in the open market or other reasons, regular quotations cannot be called for; proper enquiries as regards rates should have been made before placing an order. All orders for purchases should be issued from the printed order book/file, which should contain all the terms and conditions subject to which supplies are to be made.

In particular, prices and terms of delivery and payment should have been specifically mentioned. The officer authorized to issue purchase orders should be clearly specified and the extent of their authority defined. As far as possible, officials who are required to submit requisitions for supplies, should not themselves issue

purchase orders.

Goods when received should be immediately inspected as regards quantities, condition etc. Goods received should be entered into the “Goods Inward Register”. The storekeeper should also prepared a “Goods receipts Note”, copies of which should be sent to the buying section and the Accounts Section. The goods receipts note should be issued from the printed goods receipt note book with pre-numbered folios.

### **Cash Sales**

Cash Memos should be issued for every sale. In a number of cash memos, names of customers may not have been mentioned. However, description of goods sold, quantities, rates, the amount and sales tax when charged, are to be shown in the cash memos. The Auditor should compare the entries in the Daily Sales Register with the cash memos issued. The procedure for fixing selling price should be ascertained. The society should be advised to maintain a price register for showing details of calculations for fixation of selling price. The rates mentioned in cash memos should be checked with the price register.

### **Checking of cash memos and Daily Sales Register**

Calculations, extensions and totals should also be checked on a percentage basis. The Auditor should carefully study the provisions of The Sales-tax Act. with particular reference to the schedule in which the commodities dealt in by the society are contained. It should be seen that the rates of sales tax charged are correct.

The total sales for the day according to the Daily Sales Register should be called over into the main Cash

Book. The total sales according to the Sales Register should also be compared with the Cash received by the cashier according to his Rough Cash Book or Cash Diary. The accounts of sales tax collected should be maintained separately. The total amount of sales tax collected should be paid into Government treasury as per instruction.

## **VOUCHING LEDGERS**

**Ledgers:** Posting from various subsidiary books is made in the respective accounts in the Ledger Book. The Ledger is usually sub-divided as personal Ledger and Impersonal or General Ledger. Personal accounts are related to person, and in a trading concern, usually to those persons from whom the goods are purchased or to whom the goods are sold. Impersonal accounts are related to the accounts effecting the business and not persons.

### **Personal Ledgers consist of purchases and Sales Register:**

This are to be vouched carefully after vouching the subsidiary books viz. Cash book, Purchase Book, Bill payable Book, Journal etc. The Auditor should compare the balances in the list of creditors with the balances in the purchase Ledger, for purchases effected on credit. If the two disagree, the same should be enquired into. The casting of the Sales Ledger should be examined carefully after checking the postings from various books of original entry. The correctness of the personal accounts can be verified by agreement of their totals with the balances of the concerned total or control account maintained in the general ledger.

The entries in the general ledger will all come from a book of prime entry, viz. the cash books or Journal. In most societies, which do not maintain a separate journal, the cash book is generally called the Day Book.

The total of all subsidiary books, viz. purchase journal, Sales Register and other subsidiary cash book are first entered in the Day Book and posted into the general ledger from the Day Book, although in some societies, postings from the subsidiary books are directly made into the general ledger. However, it is more useful to analyse the transactions recorded in the subsidiary books according to their classes and post the total into the Day Book under heads so classified and then post them into the general ledger. In such cases, viz. where totals amounts have been analysed and classified under various heads, the Auditor should check the analysis, reconcile the total amount and trace the individual items comprising into the general ledger.

It should further be seen that all transfers from one account in the general ledger to another account are passed either through the journal or the Day Book and no amounts are posted directly in any account in the general or personal ledgers without first being entered in the cash book or the journal.

The narration below the entry should fully explain the origin and nature of the transaction and the reasons for making the entry.

After the whole of the posting into the ledger have been checked, the Auditor should examine each account in the ledger in order to ensure that every item has been ticked. All the accounts in the ledgers should be scanned for un-ticked items and should there be any un- ticked item, it should be traced in the cash book. The cash book and the journal should also be scanned for the same purpose. Thereafter, totals of both sides of the ledger account should be checked and it should be seen that the closing balances

have been correctly extracted. Opening balances in the ledgers should be called over from the previous year's ledgers. Since closing balances of all nominal accounts are transferred to the trading and profit and loss account and the accounts are closed at the close of the accounting period, there would be no balances of nominal accounts in the general ledger. However, there would be certain accounts relating to expenses and losses, which might not have been completely written off.

**The Trial Balance:** After checking the posting into the general ledgers and extracting balances, all the closing balances are entered in a sheet separately according to their character, i.e. debit or credit balances. This statement, which contains a classified summary or a list of all closing balance of general ledger, is known as the "trial balance". Since the cash book is also a ledger account (it being the cash account), the opening and closing cash balances are also entered in the trial balance and if the totals of the two sides of the trial balance agree it signifies the arithmetical accuracy of the accounts. If the two sides of the trial balance do not agree, it means that either the posting have not been made correctly or the totals have been incorrectly taken. Hence, in order to trace the difference, the whole of the posting and totals, both of the general ledger and the cash book will have to be checked. The difference should be located and the trial balance agreed before drawing up the final accounts. However, the Auditor should not proceed to check the final accounts unless agreed trial balance is placed before him. In the smaller societies, particularly agricultural credit societies, instead of the trial balance, a receipts and disbursements statement is prepared from the cash book, which serves the same purpose.

**Adjustment of nominal accounts:** In every society, there are bound to be transactions the results of which may not be known on the date of the balance sheet. In order to show the correct position of the society, it is necessary that all such overlapping transactions should be taken into account and necessary adjustments made.

All nominal account must be checked carefully by the Auditor so that he should be satisfied that all transactions of the business have been correctly classified and included in the final accounts. In this connection the Auditor should take particular care to see that all accrued income as well as the expenditure incurred, but not paid and income received in advance are duly brought into account. While checking receipts of income or revenue, in addition to examining the entries in the books, the Auditor has to satisfy himself that all income, which should have been received, has been duly recorded in the books. In the case of consumers stores and other trading societies, it is necessary to see that all sales effected, particularly, sales made during the last few days prior to the closing of the accounts, have been duly recorded. For this purpose, it will be necessary to trace back the issue of despatches of goods to the related invoices or sales memos. Similarly, during the course of inspection of securities and other investments, the Auditor should ascertain whether all interest accrued during the period has been received and all dividend declared is duly credited.

**Adjustment of outstanding expenses:** As regards outstanding payments, the Auditor should examine the “Goods Inward Book” or the “Invoice Register” for the last few weeks of the period and satisfy himself that all purchase made and included into stock have been duly brought into account and the amount of the unpaid

invoices credited to the respective accounts of the suppliers of the goods. In addition to purchases not paid for, expenses incurred but not paid, are also required to be brought into account. In most of the societies, salaries and wages for March may not have been paid before the close of the year. All these items will have to be brought out as the outstanding expenses.

The society should be advised to maintain an accrual ledger in which the accounts of such outstanding items would be maintained. This would facilities the comparison of the amounts provided during the current year with those of the previous years.

**Interest:** Interest on bank loans and other borrowings is generally debited to the account of society. However, in case of deposits and other temporary borrowings, interest accrued up to the date of the balance sheet, should be calculated and provided for. In particular, interest on fixed deposits accrued from the date of last payment of interest upto the date of the balance sheet should be calculated.

Interest on Savings Bank Account is ordinarily calculated and credited to the accounts of the respective depositors, before the close of the year.

**Outstanding expenses:** All nominal accounts in the impersonal ledger should be examined to see that all expenses and charges pertaining to the period under review have been included. There may be, for example, outstanding bills for repairs, fuel charges, electricity charges, water charges, and also transport charges, godown rents, subscriptions, advertisement etc. The Auditor should further inspect the ledger account, demand notes, receipts etc. noting the period covered by each payment and seeing

that any accrued and unpaid proportion from the date of last memo to the date of the balance sheet noticed during the inspection of these documents is provided for. The amount paid under these heading should be compared with those appearing in the corresponding nominal accounts for the previous year so as to ensure that all rents, rates, taxes, etc. payable have been duly provided for.

**Prepaid expenses:** Just as there are outstanding liabilities on account of expenses, there may also be advance payments or prepaid expenses as they are called. Under this head, will be included rents, rates and taxes, insurance premium, advertisement charges, subscriptions, membership fee, etc paid for periods that extend beyond the date of the balance sheet. The Auditor should examine the nominal accounts and also the demand notices bills and receipts and ensure that correct calculation has been made the proportion of the accounts relating to the unexpired periods.

**Income receivable:** There might be various amounts due to the Society for which credit will have to be taken. These will include interest on loans and other advances made by the society, interest or dividend on investments, rent receivable for premises hired out, royalties, commission, etc. receivable. Interest on loans and advances accrued upto the date of the balance sheet should be calculated and brought into account, however, since dividend does not become due until it is declared, no credit should be taken for dividend on shares unless declaration of dividend has already been made. Sometimes, rebates and bonous are also receivable. However, these should not be taken as credit unless the society has been informed that they have accrued and would be paid in due course. All items in the general ledger relating to income should be scanned carefully and enquiries should



be made as to whether any amounts are receivable. However, no credit should be taken of amounts, receipt of which is considered doubtful, unless adequate provision is made therefore.

## **VERIFICATION & VALUATION OF ASSETS& LIABILITIES VALUATION**

A comparison of the capital at the commencement of the year and at the close of the year, would no doubt, show whether any profit has been made or loss incurred by the business. Where profit has been made, there should be an increase in the capital and where loss has been incurred, the proprietor's capital would have been reduced. The profit and loss account merely amplifies the information disclosed the Balance Sheet and show how this profit or loss has been arrived at. Since the proprietor's capital represents the surplus of assets over liabilities, any increase or decrease of such surplus represents the profit or loss made during the year. The ascertainment of the profit or loss will, therefore, depend entirely upon the value put on the various assets. It is always possible to ascertain the amount of liabilities exactly, except in case of contingent liabilities, such claims under dispute, etc. However, although the assets belonging to the business can be ascertain, verified and valued, it is difficult in many cases to the business can be ascertain, verified and valued, it is difficult in many cases to arrive at the correct amounts at which such assets should be stated in the Balance Sheet.

The term 'valuation' in connection with the Balance Sheet can be differently interpreted as

under:-

- i) The value may be the estimated amount that the assets would realize, if sold or disposed off, in other words, realizable value.
- ii) Value may mean the amount that is estimated the assets would cost to replace, in other words, the replacement value.
- iii) The amount that an assets costs when purchased or acquired, less the provisions made for depreciation, since its acquisition. In other words, written down value or going concern value.
- iv) The balance of revenue expenditure, which is being written off over a period of years. This item will be shown under the heading “deferred revenue expenditure” or “prepaid expenses”.

Although all the above basis for valuation may be used in connection with the various classes of assets appearing in the balance sheet, ordinarily, only the written down or going concern value is taken into consideration.

**Classification of Assets:** - The assets held by a society vary according to the type of the business conducted by it. Since the Auditor is required to certify that the balance sheet shows a true and fair view of the financial position of the society, it will be his duty to satisfy himself that the assets are not only in existence, but have also been valued correctly.

For purpose of valuation, all assets are broadly classified into fixed assets and current assets. There is also a third type of assets known as fictitious assets, i.e. assets which are not represented by any tangible assets, such as goodwill, deferred revenue expenditure, preliminary expenses, discount on issue of shares and debentures, etc.

Current assets are those assets which are produced or acquired by a business in the course of or for the purpose of its trading and consist of cash, goods and such other assets as are held with a view to conversion into cash in the regular course of business. Examples of current assets are stock in trade, work in progress, debtors and other receivables, temporary investments and bank balance.

**Verification of fixed assets:** - Verification of fixed assets by the Auditor would be carried out by examination of the documents relating to their acquisition. A schedule of fixed assets at the beginning of the year and fixed assets acquired during the course of the year should be obtained and checked with the entries in fixed assets register. It should be seen that all articles scrapped, destroyed or sold have been duly brought into account and their written down value adjusted. As regards physical examination of plant and machinery and other fixed assets, the Auditor should see that this is carried out periodically. A certificate should also be obtained from the management that all items scrapped, destroyed or sold have been duly recorded in the books.

### **CLASSIFICATION OF CURRENT ASSETS:-**

Current assets are ordinarily classified under the following main heads for purpose of balance sheet:

1. Interest accrued on investment and loans.
2. 'Stock in trade in case of trading concerns.
3. (i) Stores and Spare parts. (ii) Loose tools. (iii) Semi-finished goods, work in progress and finished goods in case of manufacturing concerns. (iv) Loans outstanding and sundry debtors.

#### 4. Cash and bank balance:

Interest accrued on investments should be shown separately in the balance sheet and the basis of its computation should be ascertained. While computing interest receivable, overdue interest should have been excluded or if taken, adequate provision should have been made for the same. Physical verification of all stocks in hand and also work in progress will have to be carried out. For verifications of loans outstanding and sundry debtors, ledger accounts and balance confirmations will have to be seen. Cash in hand should be counted and balance certificates will have to be obtained for all bank balances.

### **DEPRECIATION**

Depreciation means a fall in the quality, or value of an asset. The net result of assets depreciation is that sooner or later the assets will become useless.

Provision for depreciation is necessary firstly, for ascertaining true profit, secondly, for retaining funds in the business so that the asset can be replaced at the proper time and thirdly, for presenting a true Balance Sheet.

For calculating depreciation the basic factors are:-

- i) The cost of the asset.
- ii) The estimated residual or scrap value at the end of its life.
- iii) The estimated number of years of its life.

No such depreciation has to be provided as will reduce the value of the asset to its scrap value at the end of its estimated life. Depreciation of current assets is taken

care of by valuing them for Balance sheet purposes of cost or market price whichever is less. Depreciation of fixed assets is generally provided for by various methods viz. fixed percentage/straight line method, reducing instalment method, revaluation method, insurance policy method etc. It is not the intention of this manual to explain these in details. Readers are advised to refer to academic books on Accountancy/Auditing for a detailed treatment. Whatever method is adopted, Auditor should ensure that adequate depreciation has been charged. Thus, fixed assets would appear in the Balance Sheet at their historical cost less depreciation to date. For Cooperative Societies charging 10% depreciation annually over the written down cost of the asset is recommended.

### **THE FOLLOWING ARE THE METHODS ADOPTED FOR VALUATION OF VARIOUS TYPES OF ASSETS:-**

- i) **Trademarks:** - Verification of trademarks can be made by inspection of certificates of registration and/or of any assignment of the trade marks.
- ii) **Freehold lands and buildings:** - Verifications is by way of inspection of title deeds. It should be seen that the title deeds are in order. The sequence of the conveyances should be examined to ensure that the last conveyance is in the name of the society. Also, extracts from the land records such as village record of rights or the city survey or the Municipal records should also be seen to ensure that they still continue to be in possession of the society. The title deeds should be in the possession of the society, unless the lands and buildings are mortgaged in which case a certificate to that effect should be obtained from the mortgagee.

As regards valuation, the cost of the lands and buildings can be ascertained from the sale-deed or the architect's certificate. Contractor's accounts and the certificate of completion should also be seen where buildings are constructed by the society.

As regards expenditure incurred over construction of roads, digging of wells, planting trees, etc. the same should be verified from the vouchers. Expenditure incurred over the maintenance of roads, gardens, playgrounds, etc. should be debited to revenue. Only the cost incurred over their original construction should have been capitalized.

As regards depreciation, it has to be noted that freehold land does not generally depreciate in value. As such, the question of charging depreciation to freehold lands does not arise. As regards leasehold lands, the valuation can be ascertained from the lease-deed, or the assignment thereof, which should be inspected by the Auditor during the course of his audit. It should be seen that all the terms and conditions laid down in the lease agreement such as insurance of property and payment of insurance premium, rent, rates and taxes, proper maintenance of the property etc. are complied with. The valuation will be made with reference to the original cost so that every year an adequate amount is written off so as to bring the value to 'nil' at the end of the life of the lease.

iii) **Plant & machinery:** - Purchase of new plants and machinery will be vouched during the course of audit. In addition to invoices and receipts the correspondence regarding the purchase and also contracts with machinery manufacturers and engineer's certificates will have to be seen. As regards physical verification where there are only a few machines inspected and identified personally by the Auditor.

However, where the number of machines is large and also where it is not possible to identify individuals items of machinery. Auditor should obtain a schedule of plant and machinery. A certificate of their existence and efficient working should also be obtained from responsible officer. The mode of valuation should be the original cost less depreciation. Where the machinery or other equipment is purchased under a higher purchase agreement or an agreement to pay by instalments (deferred payment system) the depreciation should be calculated on the full price of the machinery and not the amount of instalments paid to date.

iv) **Loose tools & tackles:** - The expenditure incurred over additions will be verified from the vouchers. At the end of the year fresh valuation of all the tools should be made every year and the difference between the opening balance plus additions during the year less closing balance should be written off as depreciation. The basis for valuation should not be the current or realizable value, but the estimated cost less an adequate allowance for wear and tear.

v) **Dead stock:** - furniture and fixture, installations and fittings:- Dead stock and furniture, including office equipment should be dealt with as in the case of plant and machinery and adequate depreciation should be written off every year, based on the working life different items. Items, such as safe, cupboards, tables, etc. have a long working life, but fixtures and fittings, such as electrical installations, partitions etc. has a short working life. In case of fitting upon leasehold premises, the entire cost should be written off during the period of the lease or their estimated working life, whichever is shorter. A list of dead stock articles and office equipment should be obtained the total agreed with the amount appearing against the item in the balance sheet.

vi) **Library books:** - Cost of newspapers, periodicals and even books is generally debited to the profit and loss account under the heading “trade expenses” or “miscellaneous expenses” and do not appear as an asset in the balance sheet, unless the amount invested is considerable. However, purchase of costly books, particularly, reference books and technical books, may be capitalized and shown under the heading “Library Books”. A register of library books should be maintained irrespective of whether the cost of the books has been debited, to revenue account or capital account. The register of library books should be inspected at regular intervals and the physical existence verified. A list of library books the cost of which has been capitalized, should be obtained and agreed with the amount appearing on the balance sheet. It should be seen that cost of old out- book, in particular, law books, is written off.

vii) **Motor vehicles:** - The cost of new vehicles purchased should be vouched at the time of checking purchases. Registration books should be examined. All vehicles should be identified by their registration number in the accounts and in the list of motor vehicles, which should be necessarily obtained at the time of audit. Where a fleet of vehicles is owned by the society, it will be necessary to keep separate account of each vehicle. The expenses incurred over repairs and maintenance should be charged to revenue and only the cost of major repairs carried out should be allowed to be carried over for one or two years so as to spread over the benefit of the expenditure over the period for which it is availed of. As regards valuation, the method adopted is original cost less the aggregate depreciation. In special circumstances, such as accident, etc. a special depreciation will have to be charged.



viii) **Live stock:** - A register of live stock showing date of acquisition, identification marks or name, price paid, depreciation charge, etc. should be maintained. Every animal should be identified by its registration number or by its name, where there are only a few animals. The basis of valuation should be re-valued at the end of each year. In case of animals, such as working bullocks, milch cattle, etc., their working or useful life and their usefulness to the society should be taken into consideration. It has also to be noted that calves, heifers and other young animals appreciate in value, as they grow old. It should be seen that necessary adjustments are made on the death or disposal of any of the animals.

### **VERIFICATION AND VALUATION OF CURRENT ASSETS:-**

i) **Investment:** - An investment ledger should be maintained recording all transactions relating to individual investments. At the top of each ledger account, necessary particulars regarding date on which interest or dividend becomes payable, scrips and right issued attaching to the investments, etc should be duly recorded. There should be separate columns to show the gross interest or dividend received, tax deducted at source and net amount received. Where no income is received during the year in respect of any investment, enquires should be examined. Arrangements made for the physical control of the securities should be examined. Physical control over the securities and other investments should be with a responsible Officer other than the Officer who is authorised to sanction purchases and sales of the securities. All securities should be preferably lodged with the bank for safe custody.

ii) **Verification of securities:** - Where securities line in the custody of the society the Auditor should examine scrip carefully. The title to the securities should be carefully examined to ensure that the security is held in the name of the society itself. The certificates, warrants or the securities themselves should be examined carefully to see that they are complete in all respect and prima facie in order and are duly registered in the name of the society. Where securities are lodged with the bank for safe custody, the Auditor should directly call for the certificates from the bank. The certificate received from the bank should specifically state that the securities have been held for safe custody free from any line. If they are held for any specific purpose, the certificate should specify the purpose for which they are held. Where shares and securities purchased have not been delivered by the broker or the bank through whom the purchases have been made, a certificate should be obtained from the broker or the bank concerned to the effect that the share certificates or securities have been held by them on behalf of the society and that they have no lien over them. As on the date of balance sheet the Auditor should obtain a schedule of investments held by the society. The list (for schedule) of investments should give the full description of the investment, i.e. its serial number, face value, whether fully paid, the extent of uncalled liability if not fully called, etc. These particulars should be compared with the particulars entered in the register or ledger of investments.

Where securities have been kept with the bank for safe custody or as collateral security for financial accommodation granted by the bank, this schedule of investments should be compared with the certificate issued by the bank. Where securities are kept with bank for safe

custody, this schedule should be checked with the safe custody certificate issued by the bank.

iii) **Valuation of securities:** - In the case of securities, which are quoted in the market, quotations on the date of the balance sheet should be obtained and the mean between the higher and lower prices should be taken for purposes of valuation. The list or schedule should show the market value of the quoted and unquoted securities on the date of the balance sheet. Aggregate book value and market value of the quoted and unquoted investments should be shown separately in the statement. Investments should be stated in the balance sheet at cost or markets value whichever is lower. Market values may be compared with the costs either by comparing the cost of each investment separately with its market value and providing for any fall the value below cost. However, any appreciation in the market value of the securities should not be taken credit of. Another and more useful method adopted is it to compare the aggregate cost of all the investments with their aggregate market value and provide for the net shortfall in the market value of the securities. Treasury bills should be shown as current assets and shown at cost or at their face value discounted at the market rate if this is less.

### **STOCK IN TRADE:**

The correctness of the profit and loss account of a concern depends, to a great extent, upon the correctness of the value of the stock of goods in hand at the close of the period. In case of consumer stores, marketing and processing societies, and manufacturing societies, and manufacturing societies, the verification of the physical existence and valuation of trading stocks, stocks in hand of raw materials, stores, partly finished goods or goods under

process, works in progress and finished goods are of considerable importance, in as much as, unless they are correctly shown, the balance sheet will not show the true and fair view of the financial position of the society and the profit and loss account will not give the correct results of the working of the society.

The Auditor has, therefore, not only to verify the existence of the stock in hand but he has also to see that it is valued according to certain accepted principles of accountancy. Though Auditors are not expected to carry out stock taking he should ensure that the stock taking method followed by the society is correct. If possible, he must prepare a rough stock accounts, showing the quantity at the beginning of the year, purchases/sales during the course of the year and the balance. He should get a certificate from the society that the quantity of stock as mentioned in the stock sheets is correct.

## **VALUATION OF STOCK-IN-TRADE**

Stock is a floating asset and is meant for resale. The accepted basis principle of accounting is to value floating assets at cost price or the market price, whichever is the lower. The different goods are valued as under:-

- a) **Raw materials.** - Such materials must be valued at the net invoice price i.e. the cost price plus a reasonable proportion of freight duty etc. in connection therewith.
- b) **Semi manufactured goods.** - They are valued at cost price of the raw materials used, plus a proportionate amount of wages and a percentage to cover establishment charges relating to manufacture.

c) **Finished goods.** – The cost price of the finished goods which have been purchased is the purchase price i.e. the invoice price and the direct expenditure e.g. carriage inwards etc.

d) **Stores.** – Stores are not held for sale in the original form. Such goods are oil, fuel, grease, dye etc. These should not be included in the stock in hand but shown separately. Those stores, which have been consumed during the process of Manufacture, must be put on the debit side of the manufacturing account to arrive at the correct cost of production. Stores are generally valued at cost price.

**Sundry Debtors:** - A very important item appearing on the assets side of the balance sheet of almost all types of societies is “loan outstanding” or “sundry debtors”. In case of cooperative bank and credit societies, the item of “loans and advances” or “loans due from members” is perhaps the most important item on the assets side. In case of consumers societies, marketing societies and other societies conducting trading activities, there would be sundry debtors for credit sale.

The amounts shown under “Sundry Debtors” should include all amounts due in respect of goods sold on credit, services render or in respect of other contractual obligations, but should not include any amounts which are in the nature of loans or advances which should be shown under the separate heading of “loans and advances” or “loans due from members”.

## **OUTSTANDING ADVANCES.**

The item is ordinarily included in “sundry debtors” but many times it is shown under a separate heading and is

mostly composed of advance made to directors and employees which are yet to be accounted for. Advances should have been made only for specific purposes and the director or employee to whom the advance is given should be asked to render accounts as soon as the purpose for which the advance has been given, has been served. The Auditor should make a note of all such cases and obtain explanations of the management and also of the director or officer concerned and if the explanation given or the clarification furnished is not considered satisfactory he should not hesitate to include such payments in his schedule of irregular payments. If the amounts involved are large and no satisfactory explanation is forthcoming, a case of temporary misappropriation should also be made out. In all cases, the purposes for which the advances have been made, should be ascertain.

A statement showing particulars of the various items appearing under the heading “sundry debtors”, “advances outstanding” etc. should be obtained and agreed with the figure appearing in the balance sheet. Schedules of different types of advances outstanding at the close of the year should be obtained and checked with the personal ledgers and other records and the total agreed with the amount shown against the items in the balance sheet. In case of trade debtors, it should be seen that control accounts are maintained up-to-date and reconciled with the totals of the personal ledger balances at regular intervals. Statements of accounts should be sent regularly to all debtors and other customers who have regular dealing with society. Differences reported by them and the manner in which they have been dealt with should be ascertained. Items under dispute should receive particular attention.

While checking ledger balances on the schedule, notes should be made showing the period during which the debt balance has been outstanding, whether it has been subsequently recovered and if not why it has been allowed to remain outstanding and whether any action has been taken for its recovery. Any other information, which will enable the Auditor to judge whether debt appears to be good and recoverable should also be collected. A list of all accounts, which are overdue, should be prepared and checked by the Auditor.

### **LOANS OUTSTANDING:-**

Loans outstanding in Cooperative Societies except those doing banking business, are generally fixed loans repayable in one lump sum or in installments specified in the loan bond or agreement. The method of checking loans outstanding is described in the following paragraphs:-

Lists of loans and advances outstanding on the date of the balance sheet should be obtained and checked with the loan ledger and the total of the list of balances should be agreed with the balance appearing in the control account in the general ledger. While checking loan balances, the following points should be seen.

- i) Amount outstanding. - The outstanding balances in any account should not exceed the maximum limits for individual loans, if any, prescribed for different types of loans in the byelaws. Where special loans or loans excess of the prescribed limits have been sanctioned to any individual or institution, authority for the same should be seen.
- ii) The period for which the balance has been outstanding.  
– If the loan has become overdue, whether extensions

have been granted properly. If the period of payment has not been extended, how long the loan has been overdue and what steps have been taken for its recovery. Whether notices have been promptly issued and legal proceedings instituted.

- iii) The make-up of the balance. - It will have to be seen whether the balance consists of only advances made or also includes interest capitalized and amounts debited to the party on account of charges and expenses incurred, such as godown rent, insurance charges, etc. Legal expenses incurred for recovery, such as notice fees, court fees, Lawyer's fees, arbitration fees and expenses etc. will have also to be debited and included in the balances.
- iv) Security for the loan. - The nature of the security and whether it is adequate and easily realizable are to be seen. If the loan has been sanctioned against personal security, whether sureties are alive and good for the amount, if secured by other security, whether the value of the security adequately covers the outstanding balances and also interest accrued and accruing, whether it can be easily realized should occasion arise, it should also be seen that condition is incorporated in the agreement where under the borrower undertakes to make up the margin in case the security becomes inadequate owing to price fluctuations.
- v) Whether there are any other circumstances, which indicate the debts becoming irrecoverable, such as death or resignation or removal from service of the borrower or his sureties, insolvency of the borrower, attachment of his property or salary under an order or



decree of civil court.

- vi) Where the loan is repayable in installments, whether all previous installments have been promptly paid as and when they become due.

### **CONFIRMATION OF DEBIT BALANCE:-**

a) The outstanding balance in Sundry Debtors accounts should be checked with whatever evidence available, viz. statement of accounts, record of payments, is confirmation letters issued, balance confirmation letters received etc. Confirmation of balance by direct communication with debtors will have to be carried out, where the number of debtors is small and the outstanding amounts are large. However, it may not be possible where the number of debtors is very large. In such cases direct communication with selected debtors with balances exceeding a specified amount (as per Bye-laws) will have to be made.

b) Issue of statement of accounts: - In cooperative banks and urban banks the borrowers are issued passbooks or periodical statements of accounts, monthly/fortnightly/weekly/daily. At the end of each accounting period, the closing balances in their accounts are communicated to them and they are requested to verify their accounts and confirm the correctness of the balances.

In all cases, however, irrespective of whether confirmations have been obtained or not, the system of follow-up of receivables, collection of debts and action taken against defaulters should be carefully examined.

c) Verification of Member's Passbooks: - In agricultural credit societies and other rural societies and also the smaller urban societies, outstanding balances should be

verified with the member's passbook. This is necessary since members of these societies are illiterate and rustic people and have fully faith in the honesty and integrity of the Secretary and other office bears. They do not always try to check whether their transactions with the society have been correctly recorded or not. During the course of audit of these societies, the Auditor should try to conduct as many members as possible and check their passbooks.

d) Confirmation of accounts in Banks: - In cooperative banks and Urban Banks confirmation letters should be sent to all borrowers who have been sanctioned fixed loans, cash credits or overdrafts. The Auditor during the course of his audit should check exhaustively, confirmation slips received back from the borrowers. The system followed for issue of confirmation letters and securing confirmation of balances followed by the bank should be ascertained and it should be seen that confirmation letters have been sent to all borrowers and in respect of those borrowers, who have failed to return the confirmation slips issued to them, enquiries should be made to ascertain whether their non-compliance is due to any dispute with the society about the correctness of the balances or about any of the items debited to their accounts.

## **VERIFICATION OF LIABILITIES**

Verification of liabilities is as much important as that of assets. Over-statement or under- statement of liabilities has considerable effects on the final accounts of a concern. The Auditor should see that all the liabilities are included in the balance sheet and verify their correctness. Various liabilities are verified as under:-

**Share Capital:** The authorised Share Capital of the society should be ascertained from the byelaws. It should be seen that it is not exceeded except by an amendment of bye-laws. Govt. Share Capital contribution should be verified with the order of sanction.

**Reserves and provisions:** Under the TCS Act. all cooperative societies earning profit are required to carry one-fourth of their net realized profits to the statutory reserve fund. The Reserve Fund is invisible and it can be used only for purposes permitted by the Act. Besides, the statutory Reserve Fund, other funds and Reserves may be created by a Cooperative Society. The provisions of TCS Act applicable to these may be scrupulously followed.

A provision is required to be made when a loss is anticipated, but the amount thereof cannot be ascertained exactly. Since the loss would have been incurred before the date of the balance sheet, the profit and loss account for the year will have to be debited with the estimated amount of the loss. So as to show correct position and a provision account created and shown on the liability side. It is duty of the Auditor to see that either such losses are written off or adequate provision is made to meet them.

### **BAD DEBTS:**

Examination of overdue debts has been made a special responsibility of the Auditor under the Act and Rules. The extent of the bad debts of a society is to be ascertained in audit as per the provisions of the Act. Those may also be classified into good, doubtful and bad as per the guidelines.

Having ascertained the extent of the debts and the amount of the provision considered necessary, the Auditor

should check the provision for bad debts accounts or bad debts fund account in the general ledger and see that the required entries have been made therein.

While writing off bad debts the provisions of the Act and Rules should be kept in mind. When the provision for bad debts is considered inadequate by the Auditor, he should discuss the matter with the management and persuade the committee to increase the amount to the extent considered necessary by him. If he fails to persuade the committee to increase the provision, he should qualify his report and also deal with it in his audit memo.

**Contingent liabilities:** - The duty of an Auditor is to see that all known and unknown liabilities are brought into account at the date of the balance sheet. There may be certain liabilities, which may (or may not) arise after the preparation of the balance sheet. It is, therefore, necessary that provision be made for such unknown liabilities. Such liabilities are called contingent liabilities. Ordinarily, unless the liability is definite, provision is not made in the accounts. However, the position is required to be made clear by means of a foot note below the balance sheet.

## **AUDIT REPORT**

**Maintenance of audit files:-** For the efficient conduct of any audit and satisfactory reporting, it is necessary to collect all information of importance into a properly kept file which should contain all the documents, working papers, schedules and audit notes and queries taken down during the course of audit. Papers of current importance, such as schedules of assets, ledger balance, inventory schedules, bank reconciliation, balance certificate obtained from banks, etc. should be filed in a 'current file' along with

audit notes and queries taken down during the course of audit. Other files and note books viz. Audit Note Books, Working Papers etc. should be maintained.

## AUDIT

**Rectification:** - During the course of his audit all the minor defects and irregularities should be got corrected and rectified as and when they are noticed so that the management would be careful to avoid recurrence of such irregularities. As far as possible, audit objection should be settled on the spot by Auditor at the time they are raised rather than taking exhaustive notes and attending to them later on to get cleared. Where additional particulars or further clarifications or explanations are required, this should be obtained during the course of audit as and when the points arise and should not be left over to be explained later on after the audit is completed. However, notes will have to be made of all objectionable items and serious irregularities and even of the minor irregularities, if they occur so frequently that they are required to be pointed out in the audit memo in general way.

**Writing out audit objection:** - All audit objections or queries as they are called should be written legibly on the left of the objection memo or query sheet as it is called and sufficient space should be left on the right hand side for the replies by the management. Full particulars of the transactions such as date, amount, name of the party, receipt or voucher number, cash book and ledger folio, etc. should be mentioned and the nature of the objection raised or the clarification or explanation considered necessary should be clearly indicated. Against each query, the information sought or clarification required or the reply of the management is to be furnished.

**Used audit objections:** - The usual objections would ordinarily be of the following types:-

1. Unattested corrections, unsigned documents, in complete documents and statement.
2. Mistake in calculations, extensions and totals, wrong calculation of interest, dividend, rebate etc. incorrect receipts or payments resulting from application of wrong rates, incorrect calculations, extensions or totals.
3. Cancelled receipts or cheques.
4. Remittances received for which for official receipts from the printed receipt books or other official acknowledgement have not been made.
5. Payments for which vouchers are not available. List of missing voucher should be separately prepared giving full particulars of the payments for which supporting vouchers have not been obtained.
6. Defective vouchers such as (a) vouchers in full particulars are not mentioned, (b) payment made to a person other than the payee without written authority of the payee, (c) payments for which supporting documents or sub-vouchers have not been attached to the voucher, (d) vouchers which are not stamped, (e) vouchers which are not in proper form or are not in the name of the society, but are addressed to the Chairman, Managing Director, Directors, Manager or the Secretary (by personal name with or without mentioning designation) individually.
7. Receipts or vouchers which do not agree with the entries in the cash book in some material respects, such as date,

amount, name of payee, head of account to which credited or debited, etc. receipts or vouchers in which the amount in words and figures does not agree.

8. Missing loan bonds and other documents, such as promissory notes, applications, agreements, etc. Defective loan bonds, agreements, promissory notes, etc. Also incomplete documents and statements i.e. documents in which spaces have been left blank, unsigned or unattested documents and statements
9. Objectionable expenses. They include:-
  - a) Expenses which are not incidental to the business of the society or do not seem to have been incurred for the purposes of the society.
  - b) Expenses considered heavy or abnormal considering the size of the institution, the nature of its business and importance of the occasion.
  - c) Infructuous expenses, i.e. expenditure which bring no return or other wasteful expenditure.
  - d) Other irregular expenses such as personal expenditure of the directors or officers paid by the society.
  - e) Expenses, which are not properly sanctioned.
10. Irregular loans and advances such as:-
  - a) Loans made to non-members or on the surety-ship of non-members.
  - b) In agricultural credit societies, loans made without obtaining declarations creating charge on the lands

of the borrowers.

- c) Unauthorized loans to members of the committee, Secretary or other Officers.
  - d) Loans, the amounts of which exceed the individual limits mentioned in the bye- laws, or the credit limits sanctioned in the normal credit statements as finally approved by the bank. Also, special loans for which approval of the Bank and/or Registrar, has not been obtained
  - e) Loans, which are against the provision of the Act, Rules, bye-laws or directions issued by the Registrar or the Bank.
  - f) Benami loans, i.e. loans the amount of which are utilized by persons other than borrowers.
  - g) Imprudent advances, such as loans, which are not properly, secured loans to minors, loans sanctioned for purposes not permitted by the bye-laws, etc.
  - h) Sales made on credit where no provision for credit sales exists in the bye-laws. Also, credit sales in excess of credit limit sanctioned.
11. Investment or employment of funds in a manner not permitted under the Act, the rules or bye- laws of the society or against the directions of the Registrar.
12. Other transactions, which involve breach of the provisions of the Act, Rules or the bye-laws of the society.



## **AUDIT MEMORANDUM**

The Auditor is required to submit an audit memorandum to the society the accounts of which he has audited and also to the Register. The form of the Audit Memo has been specified in the Act or Rules. All information furnished should be correct and should always agree with the information contained in the final accounts, lists of overdue, schedules and other statements accompanying the audit memo.

### **SCHEDULES TO CONTAIN IN THE AUDIT MEMORANDUM**

- i) all transactions, which appear to be contrary to the provision of the Act, the rules and bye- laws of the society.
- ii) all sums which ought to have been but not been brought into account.
- iii) any material impropriety or irregularity in the expenditure or in the realisation of moneys due to the society.
- iv) any money or property belonging to the society which appears to the auditor to be bad or doubtful debts; and
- v) any other matter specified by the Register in this behalf.

It would, thus, be seen that the Auditor is required firstly to mention in his report all cases of breaches of the provisions of the Act, the Rules and the bye-laws of the society. However, there might be cases infringement of the provisions of the Act, the Rules and bye- laws of the society

which may not have any financial implications, as for example, failure to call the annual general meeting in time, non-submission of returns prescribed by the Registrar, failure to maintain adequate fluid resources, etc. Since such cases do not find a place in the schedule; they will to be separately commented upon in the audit memorandum.

The Auditor has to furnish in his audit memo, full particulars of all sums, which ought to have been but have not been brought into account. This is a very important matter and in order to comply with the requirements of this clauses, it would be necessary for the Auditor not only to vouch all receipts and check, ledger accounts, statements, balance confirmation letters etc. but also to examine the minutes agreements and other records of the society and also to go behind the books of the society and make personal inquiries in order to ascertain whether there are any amounts received or receivable by society, but have not been brought into account and whether any remissions, relaxations or concessions have been unauthorizedly allowed.

The Auditor has to report all cases of improper or irregular payments and irregularities in the realization of moneys due to the society. A cooperative society being a business concern is required to duly observe all accepted canons of financial property in making payments and in collecting amounts due to it.

### **CERTIFICATION OF THE BALANCE SHEET AND THE PROFIT AND LOSS ACCOUNT:**

The Auditor has to furnish a certificate regarding the correctness of the balance sheet and the profit and loss account of the society examined by him. This certificate is required to be annexed below the balance sheet and the

profit and loss account and appended to the audit memo. The Auditor has to specifically state whether in his opinion and to the best of his information and according to the explanation given to him, the accounts examined by him give all the information required by the Act in the manner so required and give a true and fair view:-

- (i) in the case of the balance sheet, of the state of the society's affairs as at the end of the financial year or any subsequent date up to which the accounts are made up and examined by him; and
- (ii) in the case of the profit and loss account, of the profit and loss for the financial year or for the period covered by the audit as the case may be.

Further the Auditor has to state:-

- i) whether he has obtained all the information and explanation, which to the best of his knowledge and belief were necessary for his audit.
- ii) whether in his opinion proper books of accounts are required by the Act, the Rules and bye-laws of the society have been kept by the society; and
- iii) whether the balance sheet and the profit and the profit and loss account examined by him are in agreement with the books of accounts and returns of the society.

The Act further lays down that where any of the above matters are answered in the negative or with a qualification, the Audit Memorandum should state the reasons for the answer.

The Auditor's report on the Balance Sheet and profit and Loss accounts, which is sometimes referred to as the Auditor's certificate, is thus required to be quite specific. This report, which may more appropriately be called the Auditor's certificate should be distinguished from the detailed report containing the general remarks or observations of the Auditor, accompanying the audit memorandum, and will have to be annexed to the balance sheet itself where the Auditor proposes to qualify his report, reasons for the same should be stated in the audit certificate itself for attention drawn to the special paragraph in the general remarks in which the matter is discussed.

**Auditor's Report:** - The Auditor's Report or the "general remarks" as they are referred to should contain the general observations of the Auditor regarding the affairs of the society, the accounts of which he has audited, the irregularities noticed by him and his suggestions for improvement. The general remarks of the Auditor should be concise and to the point.

The report should be divided into two parts; Part –I – dealing with such matters as financial stability, loan policy, progress of recoveries and position regarding over dues, mode of conducting business, deficiencies in the arrangements for internal check, infringement of the provisions of the Act, Rules, bye-laws and circular instructions of the Registrar, the general progress of the society, its achievements and the degree of interest taken by the Office-bearers and ordinary members of the society in its affairs and Part-II dealing with the account irregularities and suggestions of the Auditor.

It is also necessary that the audit report of the general remarks should be dividend into several paragraphs

consecutively numbered, with a clear-cut heading for each paragraph.

All important aspects of the working of the society are required to be carefully examined and brought out in the audit memo. The points to be referred to in the audit memoranda of different types of societies will be different according to the nature of their operations and the business methods adopted by them. In case of most of the societies, the following should form the subject matter of separate paragraphs.

1. Points in the last audit memo, not attended to by the society.
2. Review of progress briefly indicating its achievement and its present position.
3. Deficiencies and defects in the arrangements for internal control and suggestions for their improvement.
4. Management-loan policy, mode of conducting business, employment of funds, overtrading, if noticed etc.
5. Financial position, distribution of assets, adequacy of working capital, proportion of owned funds to borrowed funds, maintenance of adequate fluid resources.
6. Breaches of the provision of the Act, Rules and bye-laws of the society, non-observance of the business rules and instructions issued by the Registrar.
7. Correctness or otherwise of the Balance Sheet and the profit and loss account. Brief comments or explanatory notes on such items of assets and liabilities, which call for specific mention, should be given.

8. Disagreement of bank balances, differences in the agreement of personal ledger balances, stock accounts, etc. Where these are noticed, the audit certificate should be properly qualified.
9. Regularity of the meetings held and procedure followed. Resolutions passed or decisions taken which may not be in the interest of the society or of the members in general.
10. Loyalty of members and efficiency of management, operational efficiency of the various activities undertaken by the society in the particular, working of sales depots, processing units, etc. according to norms or standard laid down.
11. Cases involving misapplication or misappropriation of the funds of the society, frauds, etc.
12. Proper maintenance and use of vehicles, telephones and other moveable and immovable of the society.
13. Proper safeguarding and insurance of all property held by the society. The summary of the audit memo, prepared by the Auditor is required to be read out in the general meeting. It will, therefore, be necessary for the Auditor to prepare a brief resume of the more importance points contained in his report for being read out in the Annual General Meeting. This summary should contain all the important points omitting the descriptive portions. It is not necessary to repeat the entire list of irregularities, but the more serious and important ones may be mentioned inviting reference to the respective paragraphs in the general remarks. The summary of the audit memo along with the explanation of the management should be placed before the Annual General Meeting for its consideration.

As regards drafting of Part-II of the audit report, it may be noted that it is the duty of the Auditor to discuss the audit objections with the Office Bearers and to see that as many irregularities as possible are set right on the spot. It is only these irregularities that cannot be remedied during the progress of the audit that should find a place in Part-II. Part-II should also be divided into separate paragraphs with the various items grouped under suitable heads as shown below:-

- i) List of missing vouchers and loan bonds.
- ii) List of vouchers on which payee's acknowledgement is wanting.
- ii) List of defective vouchers and loan bonds.
- iv) List of payments, which are not supported by documents such as bills or invoices, etc. or for which sub-vouchers are wanting.
- v) List of payments which are not properly authorized.
- vi) List of items where delegated authority has been exceeded.
- vii) List of remittance for which official receipts are not issued.
- viii) Mistakes in interest calculations.
- ix) Other irregularities to be specified.
- x) Suggestions for improvement of the accounting system.

The procedure described above would be applicable mostly to Cooperative Banks, Marketing and Processing Societies, and other Societies having voluminous transactions. In case of agricultural credit societies and

other small societies, only a few heading would generally suffice.

## **AUDIT CLASSIFICATION**

On completion of audit of a society, the auditor should classify it in accordance with the instructions issued by Registrar from time to time. Classification of a society is an important duty vested with the auditor and therefore it should be done most carefully and intelligently. The Auditor has to note that wrong classification into the low orders may weaken the enthusiasm of the office bearers to the society. At the same time he should not given any higher classification than that is actually eligible to the society.

The classification is hereby based on two distinct tests viz.,

- (i) The financial stability, economic viability, soundness etc., and
- (ii) The administrative efficiency, general performance etc. of the Society.

Registrar's conference in 1976 laid down certain standards which were adopted by the States with modification to suit local conditions. The Rural credit Survey Committee also stressed that these should be uniform standards of audit classification on an All India basis in respect of different types of Co-operative since the "existing standards are so varying as to cause a great deal of confusion". Accordingly the Agricultural Credit Department of Reserve Bank has, in conjunction with the standing Advisory Committee on Agricultural Credit, evolved certain standards, to be followed by the States in classifying the Societies in audit.



**Broad principles of classification:** - The following general standards have been laid down for classifying agricultural credit societies and Rural Banks:-

- (1) Capital structure :- The progress made in strengthening the capital structure, own funds etc. and in tapping more deposits when compared with the previous years.
- (2) Credit and Financial stability, economic viability etc.
- (3) Management efficiency, maintenance of accounts etc.
- (4) Undertaking of subsidiary activities.
- (5) General working.

(a) Credit Societies

Particulars	Maximum Marks Allotted	Marks awarded by auditor
<p>1. Capital Structure (20)</p> <p>The sum total of share capital and deposits at the end of the year should be compared with the loans outstanding against members at the end of the year. If the proportion is 10% and less no marks will be awarded.</p> <p>One mark will be awarded for each 10% of increase over 10.</p>	20	

<p>2. Credit (Loans to members) (30)</p> <p>(a) Work out of the percentage of the total volume of loans issued during the year to the total amount of loans required by members as part normal credit limit. Statements or proportion of the average loan issued per member to individual credit limit. Award one mark for each 5%.</p>	6	
<p>(b) There should be a time lag of at least a fortnight between the date of repayment of a loan by a member and the issue of the fresh loan. Marks will have to be awarded on the basis of the usual time lag noticed.</p> <p>(10 marks)</p>	4	
<p>(c) Percentage of overdues to demand under principal for the year. (If the percentage of overdues to demand is 30, no marks. If it is less than 30, one mark for each 3% reduction. If the percentage is more than 30, minus one mark for each 6% increase up to a maximum of 5 marks).</p>	10	
<p>(d) Percentage of overdues to demand under interest.</p> <p>(If the percentage of overdues to demand is 20, no marks. If it is less than 20, one mark for each 4%</p>	5	

decrease. If the percentage is more than 20, minus 1 mark for each 8% increase up to a maximum of 5 marks).		
(e) Percentage of number of defaulters to total number of borrowers. (If the percentage of defaulters to total number of borrowers is 20 or more, no marks. If the percentage is less than 20, one mark for each 4% reduction).	5	
<p>(f) Financial stability cover for bad and doubtful debts.</p> <p>The total of the reserve fund and bad debts reserve should completely cover 100% of the Bad debts plus 50% of the doubtful debts. Work out the percentage of the former to the latter and award marks at the rate of 1 mark for each 6%.</p>	10	

3. Management (15)	4	
(a) Rectification of defects pointed out in audit and inspection progress.		
(b) Effective action against defaulting members (including legal steps).	3	
(c) Holding of meetings-once a month at least to discuss ways and means to	4	

develop the business of the Society.		
(d) Maintenance of accounts (ledgers should be properly posted up to date and correct monthly and quarterly statements of receipts and payments should be prepared promptly and placed before the Board either by the Secretary or by full-time or part-time clerks).	4	
4. General working of the Society including supply, marketing and processing functions trained office bearers or employees, committee members and educational activities. Marks to be awarded in the assessment made by the auditor.	25	
Total	100	
Classification proposed for the year.		

In the case of other Societies except those noted above and except District/Central Co- operative Banks, the classification is done on the following basis.

**Class A :-** The Society which requires no help from official and non-official staff for its working (excepting annual audit) comes under ‘A’ Class. An ‘A’ class Society does not want any supervision from the Union or Central Banks. Overdues of loans with members should not be more than 10% of the total outstanding with members. The Society maintains its own paid and qualified staff. It must also be working at profit.

**Class B :-** The overdues in a 'B' Class Society should not be alone 25%. Its accounts may not be entirely faultless. The general co-operative vitality of the Society must be reasonably high. Its management should be one that taken keen interest in remedying its defects.

**Class C :-** A Society which does not fall under A, B and D classes is to be classified as 'C'. Its overdues should not be above 40%. Its financial position should be ultimately sound.

**Class D :-** Societies the overdues of which exceed 40% and which are moribund are to be classified as 'D'. No Society should be classified as 'D' so long as it is considered it to receive loans on any terms whatever from the financing institutions. If a Society remains in 'D' Class for 2 or three years continuously it will have to be liquidated.

The above are the standards generally adopted to classify credit Societies.

## **NON-CREDIT SOCIETIES**

There are many types of non-credit societies, but separate standard for each type is not indicated here. But from the principles narrated above; the auditor can find out which type of measuring rod should be applied to a particular type of society. Among non-credit societies, audit classification of consumer and industrial societies are discussed here.

(i) **Consumer Societies :-** The main object of a consumer society is the distribution of consumer goods to its members. The auditor has to verify the loyalty of members to the society by verifying whether or not the members are purchasing all their requirements from the Society if the society is ready to meet their demands. Efficient and economic management of the Society, adequacy of working

capital, proportion of owned capital to borrowed capital, supervision exercised by the Committee over the employees, gross income and net income, proportion of establishment and contingent charges to gross income, purchase policy, rotation of funds, service to the customers, maintenance of registers and records etc., are some of the factors to be considered by the auditor in deciding the audit classification. Dependence on owned funds and deposits, if any, from members, insistence on cash sales, system of internal check are still other important points to be borne in mind by the auditor in awarding the classification.

Consumer Societies must be subjected to the above tests and those societies which possess a very high standard and come out successfully in all the tests can be classified under 'A', if no serious defects are noticed in their working. Class B can be given to the societies who are when applied with the above tests keeping less standards, than that of A in making steady profits whose owned capital is not less than 50% of the working, capital, and where more than 40% of the members purchase their requirements from the society and where the overdues on credit sales to members do not exceed 20%. Societies which are incurring loss either due to bad management or lack of sufficient volume of business and where not less than 25% of the members are purchasing their requirements from the Society and where the overdues on credit sales do not exceed 40% can be classified as 'C'. All other societies which do not fall on the above classes will be classified under 'D'.

The auditor may remember that these are only indications and broad directions to arrive at the proper classifications.

(ii) **Industrial Societies** :- Over and above the general principles already enunciated the following points are also to be considered in awarding audit classification to Industrial Societies.

Industrial Societies are generally producers' Societies. So there must be adequate arrangements to purchase economically the raw material required by the producers. The Society should be in a position to purchase and sell the finished products of its members, on agency basis. There must be a good system to check the quality of finished goods. The Society must have adopted sufficient safeguards to effect compulsory savings for its producer members. Industrial Societies are given substantial financial assistance from Government, and therefore proper utilisation of such assistance has to be verified by the auditor. The books of accounts of the Society should be maintained correctly and promptly. The members of the staff must be trained and qualified. Loans, if any, advanced to the members should have been utilised properly. The overdues should not exceed 10% of the outstandings.

A Society fulfilling the above conditions and in which no serious defect are seen can be classified under 'A'. A Society can be classified under 'B', where 50% of the members take part in the production activities of the Society and where the overdue do not exceed 20% of the outstanding.

A Society which is financially weak, where the overdues exceed 20% of outstandings, and where not more than 25% of the members are engaged in production activities, is to be classified under 'C'.

All other societies come under 'D'.

The auditor has to award suitable marks in the audit more in accordance with the above broad norms and to submit the name to the Deputy Registrar/Assistant Registrar along with the audit certificate. While checking the audit note and connected records the Deputy Registrar/Assistant Registrar has also to check the reason behind the marks awarded by the auditor before approving the audit certificate. The audit classification should be indicated in the audit certificate at the time of issue.

### **AUDIT CLASSIFICATION OF NON-CREDIT SOCIETIES**

<b>Sl. No.</b>		<b>Maximum marks allotted</b>	<b>Marks awarded by auditor</b>
1	Capital structure	10	
2	Enrolment of members	5	
3	Extent of business done	25	
4	Subsidiary activities	10	
5	Provision for bad and doubtful assets	10	
6	Maintenance of accounts	10	
7	Rectification of audit and inspection defects	10	
8	Holding of committee and General Body meetings.	5	



9	General working including working results,  service to members, trained office bearers or  employees, committee members Educational  activities etc.	15     -----  100  =====	
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### (c) Co-operative Central Banks

The Reserve Bank of India provides financial accommodation to the agricultural credit Societies, through the Kerala State Co-operative Bank, who route them through the District Co- operative Banks. Under Section 17 of the Reserve Bank of India Act, District/Central Co-operative Banks, to become eligible for the assistance should conform to certain well defined standards. One of the norms fixed is that Central Co-operative Banks falling under A and B classes alone are eligible for Reserve Bank of India assistance on the security of two signatories. The following norms are adopted for the audit classification of the District/Central Co-operative Banks.

#### **‘A’ Class Central Banks :**

- (1) The arrears under principal should not exceed 20% of demand and arrears under interest should not exceed 5% of the demand.

- (2) The total of the entire bad debts and 50% of the doubtful debts should not exceed the Bad debts Reserve of the Bank.
- (3) The short term liabilities of the Bank should not exceed the short term investments exclusive of overdues.
- (4) The Bank should have maintained the required standard of fluid resources through the year in accordance with the rules in force in the State concerned.
- (5) At least 50% of the loans issued during the year should be for short term purposes.
- (6) Not more than 35% of the Societies indebted to the Bank should be defaulters.
- (7) The Bank should have worked at profit.
- (8) The management of the Bank should be efficient and the staff duly qualified.

**‘B’ Class Central Banks :**

These Banks must satisfy item Nos. 3, 4, 7 and 8 of the standards prescribed for ‘A’ Class Banks and must in addition satisfy the following standards.

- (1) The arrears under principal may exceed 20% but should not exceed 40% of the demand. There may be interest overdues but it should not exceed 10% of the demand.
- (2) The total of Bad and doubtful debts should not exceed the Bad debt Reserve and Reserve Fund of the Bank.

- (3) Not less than 40% of the loans issued to Societies during the year should be for short term purposes.
- (4) Not more than 50% of the Societies indebted to the Bank should be defaulters.

**‘D’ Class Central Banks :**

- (1) The overdues under principal exceed 60% of the demand and under interest exceed 15% of the demand.
- (2) The Bad and doubtful debts exceed the owned capital ie. the Reserve Fund, the Bad Debts Reserve and paid up share capital.
- (3) The required standard of fluid resources is not maintained on several days during the year.
- (4) The long term and medium term loans issued during the year exceed 75% of the loans issued to Societies.
- (5) More than 60% of the Societies indebted are defaulters.
- (6) The Bank has worked at loss.
- (7) The management of the staff is not satisfactory.

**‘C’ Class Central Banks :**

The Banks which do not fall under A, B or D Class

[Revised standards for audit clarification of Central Banks are appended (Appendix II 5)]

3. Classification on the basis of marks obtained:

When audit classification has to be made based on the marks obtained, the auditor has to prepare a statement showing the marks allotted under each head and sub head, to determine in what audit class the Society has to be placed. Where a system of awarding marks has been prescribed, the auditor should use his discretion as to the extent of fulfillment of the various conditions/criteria and award marks. Based on the total marks obtained the societies may be classified as under:

Societies getting 60% and above and working on profit will be classified under 'A'. Those getting more than 50% but less than 60% under 'B', those getting more than 35% but below 50% under 'C' and those getting less than 35% will be classified under 'D'.

- (a) No Society shall be classified as 'A' whose overdues to demand under principal exceed 20% (Here specify the percentage).
- (b) No Society shall be classified as 'B' whose overdues to demand under principal exceed 25% (Specify the percentage).
- (c) In the case of service societies, suitable marks for non credit activities should be allotted out of the marks assigned for general working. (Under item 4 above).
- (d) New Societies will not be classified for the first 2 years and they will be shown as "unclassified".

#### 4. Submission of Special Reports :

The defects, if any, noticed by the auditor are to be listed in a classified and consolidated form on separate sheets, which will be called "Schedules of audit defects"

or summary of defects. In case any defect is of very serious nature and requires special attention of appropriate authorities, the auditor should submit a separate special (confidential) report in the matter immediately on detection of the defect.

The Special report should immediately be submitted to the Deputy Registrar of Co- operative Societies (Audit), concerned, or to the concerned superior officer in the following cases also.

- (a) Misappropriation of funds or other properties of the Society (Including temporary misappropriation).
- (b) Imprudent or irregular advances of loans and cash credits, benami loans, loan against inadequate or non-existing security or disproportionate loans to the members of the Committee, to their relatives, close associates etc.
- (c) Non production of cash balance even after the service of summons, by the auditor, destruction of records, disappearance of a responsible officer of the Society etc.
- (d) Expenditure which are objectionable and are disproportionate to the financial position or economic viability of the Society.
- (e) Cases in which important provisions of the Act, Rules or byelaws of the Society have been infringed, such as failure to hold timely annual general meeting, non conducting of election, continuance of an invalid or disqualified Committee, failure to hold committee meetings regularly etc.

- (f) Cases in which office bearers involved in the transactions and which have brought avoidable losses to the Society due to their negligence or due to their willful action to bring benefit to themselves by such deeds.
- (g) Any other serious irregularity warranting immediate action.

While preparing special report the auditor has to bear in mind certain vital principles. Firstly, he should satisfy himself that circumstances exist which warrant the submission of a special report. Such special reports should therefore, be restricted to important matters on which some immediate administrative action is called for. Secondly, the auditor should have conducted thorough investigation into the matter and gathered sufficient materials for launching, both Civil and Criminal action against the delinquents after satisfying himself of the serious defect. Mere mention of suspicious circumstances without adequate proof will not be sufficient. In case the auditor is unable to carry out a complete investigation by himself, he may suggest for a statutory enquiry by the Administrative Department for a detailed investigation into the matter. But before he suggests for an enquiry attempts should be made to investigate the matter and collect all available evidences.

## **ASSESSMENT AND LEVY OF AUDIT FEES**

**Procedure for levy of audit fees** - Statutory provision :- Audit of Co-operative Societies is the statutory responsibility vested on the Registrar. In order to carry out this responsibility effectively, the Registrar has to maintain sufficient number of staff, indifferent categories, the cost of which is met from out of Public revenue.

Every Co-operative Society whose accounts are audited by the Department, is required to pay to the Government audit fees according to the scale fixed under the provisions of the Co- operative Societies Act and Rules. The audit fees payable by a Society is calculated soon after the audit is over, and the amount payable is to be specified in the audit certificate. The basis of levy of audit fee is different for different types of societies.

Rule 65 of the Kerala Co-operative Societies Rules 1969 governs the payment of audit fees for the different types of societies, which are as follows:

(1) Every Co-operative Society shall pay to Government within one month of receipt of the annual audit certificate an audit fee calculated on the working capital as on the last day of the co-operative year to which the audit relates or on the total sales during the year or on the gross income during the year, as the case may be, as shown below.

- (i) Credit Societies (excepting primary Land Mortgage Banks Housing Societies and House Mortgage (Banks) on the working capital.
- (ii) Primary Land Mortgage Banks, House Mortgage Banks, Housing Societies: - on the aggregate of loans issued and that recovered during the year under audit.
- (iii) Societies having credit and non credit activities :- On working capital or on sale proceeds of goods whichever is higher.
- (iv) Societies dealing in goods (excepting Coir Societies) :- On sale proceeds.

- (v) Coir Co-operative Societies: - On proceeds of Coir sold as owner as well as on the commission realized on goods sold as agents.
- (vi) Transport Societies: - On hire charges collected and sale proceeds of articles.
- (vii) Other Societies: - On gross income.

Audit fees will be calculated at the rate of 30 Paise for every one hundred Rupees or part thereof on the working capital, the value of sales or gross income, as the case may be up to Rs. 5 lakhs and thereafter at the rate of 20 Paise for every next one hundred rupees or part thereof. The maximum audit fees payable by a Society should not exceed Rs. 3000

**Exemption from payment of audit fees:** - The following classes of Societies are exempted from the payment of audit fees.

- (a) All Co-operative Societies of which all or a majority of the members are Harijans.
- (b) All farming societies
- (c) All social welfare societies.
- (d) Any society or group of societies which has its accounts audited at its own expense by an officer of the Co-operative Department, as per provisions contained in Sub rule (2) of Rule 65 of the Kerala Co-operative Societies Rules or under an agreement approved by the Registrar to audit the accounts of such Society.
- (e) Any weavers' Society or coir co-operative Society, or housing society or primary society formed for the



benefit of Fishermen until it has completed the sixth co-operative year after commencing business.

- (f) Any Society for the first year of audit, irrespective of the date of commencement of business.
- (g) Any credit society the working capital of which does not exceed Rs. 2,000 and any other society the sales or gross income of which does not exceed Rs. 10,000.

Audit fees payable by a Society is to be remitted into the Government Treasuries under the proper head and the receipted chalan issued by the Treasury Officer, should be sent to the Assistant Registrar (General) Deputy Registrar, concerned, who will watch the proper collection of audit fees.

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