



AUDIT OF CO-OPERATIVE SOCIETIES

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Section 17 of the Co-Operative Societies Act, 1912.

- Audit to be carried out by the Registrar, or any person authorized by the Registrar through either a general or special order, of every registered society at least once a year.
- Further its accounts are to be audited by a Chartered Accountant u/s 44AB, in addition to the audit that is carried out by the administrative department (Directorate of Co-Operative Audit) as provided in the State Cooperative Laws.

AUDIT OF CO-OPERATIVE SOCIETY

- A Co-Operative Society *u/s Section 44AA* is required to maintain its Books of Accounts and any other relevant documents as per the provisions of the Income Tax Act.
- A co-operative society shall get its accounts ***audited annually*** by an auditor selected from the panel prepared by the Registrar in the prescribed manner within the period of ***sixty days*** from the close of co-operative year.
- The person auditing the accounts of a co-operative society shall have free access to the books, accounts, papers, vouchers, stock and other property of such co-operative society and shall be allowed to verify its cash balance and securities.

AUDIT OF CO-OPERATIVE SOCIETY

- The directors, managers, administrators and other officers of the co-operative society shall furnish to the person auditing the accounts of a co-operative society all such information as to its transactions and working as such person may require.
- It shall be the duty of the ***committee*** of the co-operative society to ensure that its accounts are audited annually and the Audit Report presented for consideration in Annual General Body meeting of the co-operative society as provided in ***Section 31*** and a copy of the Audit Report shall also be forwarded by the co-operative society to the ***Registrar*** for his information and record.

AUDIT OF CO-OPERATIVE SOCIETY

- On failure to get the audit of the co-operative society conducted in time, the Registrar shall get the audit conducted and fee paid shall be a charge against the delinquent officers of the committee and shall be recoverable from them as an arrears of land revenue as provided in ***Section 111***.

BOOKS OF ACCOUNTS

- Under the purview of Section 43(h) of the Co-Operative Societies Act, the respective State Government has the authority to formulate rules regarding the Books of Accounts to be maintained by the entity. Generally the following statements and records need to be maintained :-
 - Receipts & Payments Statement for the accounting period.
 - Accurate and updated Sales, Purchases and Stock records (wherever applicable).
 - Statement of Assets & Liabilities
 - Property and Investments Register

BOOKS OF ACCOUNTS

- Fixed Assets Register.
- Fixed Deposits Register.
- Any additional records maybe maintained by the management if it ensures greater clarity of the financial position of the entity

AREAS OF AUDIT CHECK

- Posting Checking
- Casting Checking
- Ledger Scrutiny
- Vouching
- Verification of Assets & Liabilities
- Review of Balance Sheet

Special Areas of Examination

Examination of Overdue Debts:-

- Overdue Debts have to be classified and reported by the auditor into 2 categories, i.e. between 6months to 5years (and) above 5years.
- Possibility of recovery of Overdue Debts, adequate provisions for doubtful debts and variances with respect to the preceding years should be assessed.

Overdue Interest:-

- Overdue Interest is the interest accrued or accruing in the accounts, the amount of which the principle is overdue.
- Overdue Interest should be excluded from interest outstanding and accrued due while calculating the profits.

Special Areas of Examination

Bad Debts:-

- Writing off of bad debts must be authorized by the managing committee or certified by the auditor (wherever the law so requires) as irrecoverable losses.

Adherence to Co-Operative Principles:-

- The Auditor needs to assess the extent of achievement of the objects of the co-operative society, not in terms of profits, but in terms of social benefits to its members.
- Various tools and techniques such as Cost Accounting, Store Controls, Standard Costing, Budgetary Control etc.
- The principles of proprietary audit must be employed in this case.

Special Areas of Examination

Provisions of the Act & Rules:-

- The auditor has to ensure that all the rules & regulations and bye laws of the Co-Operative Societies Act have been followed.
- If any deviations exist, their financial implications have to be reported by the Auditor.

Member's Register & Passbooks:-

- The Auditor has to examine the passbooks of the members in order to verify the loans given, repayment made, and confirmation of loan balances.
- Test-checks to be carried out based on the Auditor's discretion, in order to safeguard the interests of the members and to mitigate frauds.

Key Areas of Concern

Restrictions on Shareholdings (Section 5 of the Cooperative Societies Act):-

- In case of a society where the liability of a member is limited, no member of the society (other than a registered society), can hold more than ***20% of the total number of shares*** (or) ***value of shareholdings greater than Rs. 1,000/-***

Restrictions on Loans (Section 29):-

- No loans can be made to any person ***other than a member.***
- With the special sanction of the Registrar, loans may be issued to other Registered Society (subject to the State Government's discretion)

Key Areas of Concern

Restriction on Borrowings (Section 30):-

Loans can be accepted from members or others subject to the bye-laws of the society.

Investment of Funds (Section 32):-

A society may invest its funds in any one of the following:

- Central/State Co-operative Bank
- Securities specified in Section 20 of the Indian Trusts Act, 1882.
- Shares/Securities/Bonds/Debentures of any other society with limited liability
- Co-operative Banks approved by the Registrar
- In any other monies subject to the approval of the Central/State Government

Key Areas of Concern

Appropriation of Profits (Section 33):-

- **25% of Profits** to be transferred to the Reserve Fund, **prior** to distribution of bonus or dividend to its members.
- In certain cases, at the discretion of the Registrar, the percentage of Profits to be transferred may be reduced, but **never to be less than 10% of Profits.**

Contribution to Charitable Purposes (Section 34):-

- A society may contribute an amount **not exceeding 10% of the Net Profits** for any charitable purpose, remaining after the compulsory transfer to the Reserve Fund under Section 33(**subject to the sanction of the Registrar**).

Key Areas of Concern

Investment of Reserve Funds Outside the Business or Utilization as Working Capital:-

Some State Acts enable co-operative societies to utilize the Reserve Funds in the following manner:

- In the business of the society as Working Capital
- Invest as per provisions of the Act.
- May be used for public purposes that may enable the promotion of the organization's objects.

Key Areas of Concern

Contribution to Education Fund:-

- Some State Acts provide for annual transfer of Profits towards the Education Fund of the State Federal Society at the prescribed rate which depends on the class of the given society.
- Contribution to the Education Fund is a ***Charge on the Profits and not an Appropriation of Profits***

Key Areas of Concern

Appropriation of Profits:-

- The Auditor has to scrutinize the provisions in the Rules and Regulations of the given society regarding the appropriation of profits.
- The Auditor needs to ensure that all appropriation of profits is carried out with the prior approval of the General Body of the society.
- The Auditor also needs to ensure that the necessary appropriation entries have been passed after the date of approval by the General Body.

Key Areas of Concern

- In case of certain State Acts, Dividend Equalization Reserve and Share Capital Redemption are stated as ***Charges against Profits***. However in the case of generally accepted accounting principles these items are treated as ***Appropriation of Profits***.
- It is the ***Auditor's responsibility*** to point out any areas where the statutory provisions of any law are in contradiction with any of the generally followed accounting principles.

DISCLOSURES IN THE AUDIT REPORT

- Any transactions or actions of the entity that are not in conformity with the provisions, rules, regulations or bye-laws of the society.
- Any material, property, debts of the society that may be perceived as doubtful by the auditor.
- Any material irregularity or misstatements in the case of conduct of transactions.
- Any specific matters as may be prescribed by the Registrar.